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***RED FLAG***

No 14, 16 JULY 1987

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CHINA

RED FLAG

No 14, 16 July 1987

[Translation of the semimonthly theoretical journal HONGQI of the Central Committee of the Communist Party of China published in Beijing.]

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SPEECH AT A MEETING OF PROPAGANDA, THEORETICAL, PRESS, AND PARTY SCHOOL CADRES  
(13 MAY 1987)

Beijing HONGQI [RED FLAG] in Chinese No 14, 16 Jul 87 pp 2-7

[Speech by Zhao Ziyang]

[Text] The purpose of the meeting today is to draw up plans for mass media and propaganda work. This involves two requirements: One, the struggle against bourgeois liberalization must be deepened; and two, economic structural reform must be deepened, and an outline for political reform must be presented at the 13th CPC National Congress. The Central Propaganda Department will be in charge of discussion on the work in these two areas. But first let me offer my opinion.

I. How To Deepen the Struggle Against Bourgeois Liberalization

The struggle against bourgeois liberalization has been carried out for 4 or 5 months. Thanks to the efforts of the whole party, great changes have taken place in the political and ideological spheres, and the ideological trend of bourgeois liberalization has been curbed. The general atmosphere has changed, and the situation brought under control, as reflected, with concrete manifestations, in the following six areas: 1) Student unrest has been calmed, and the students' feelings have stabilized; 2) political stability and unity have continued to develop in the whole society; 3) the ideological trend of bourgeois liberalization has lost its appeal for the public, and fewer people talk about and the press no longer carries the erroneous view of discarding party leadership and socialism; 4) a few unrepentant advocates of bourgeois liberalization have been duly criticized and punished; 5) the party Central Committee has taken resolute action to correct a few leading comrades' weak attitude and their connivance at the ideological trend of bourgeois liberalization; and 6) all party members have increased their awareness of the pernicious influence of bourgeois liberalization and their understanding of the four cardinal principles, and although their awareness and understanding varies in depth, their thinking is undoubtedly more sober and their Marxist stand firmer. In short, compared with last winter, there is greater stability in our society to ensure the steady growth of the national economy.

What does the development of the situation over the past 6 months show? In my opinion, it indicates at least the following two points:

First, the party Central Committee's decision to launch the struggle against bourgeois liberalization was entirely necessary, and the party Central Committee was correct and firm in adopting the decision. Had the ideological trend of bourgeois liberalization been allowed to go unchecked, it would have misguided more people, undermined political stability and unity, and impeded our construction and reform to the detriment of the interests of the people across the country. By carrying out the struggle, we have avoided upheaval, overcome interference, maintained and developed political stability and unity, and ensured and further promoted the policy of carrying out reform and opening to the outside world and the socialist modernization drive. Practice over the last 6 months has further convinced us of this point.

Second, the various policies formulated by the party Central Committee to combat bourgeois liberalization are entirely correct. In light of historical experience and the lessons learned from history, the party Central Committee has clearly defined, in Document No 4, the guiding principles, scope, targets, and limits of the series of policies and the work methods of the struggle since it began, pointing out that the struggle against bourgeois liberalization should not be a political campaign and should be strictly restricted to inside the Communist Party, carried out mainly in the political and ideological sphere, and concentrated on solving problems regarding political principles and direction; that it not be linked to economic reform and not carried out in rural areas; and that education by positive example be carried out in enterprises, institutions, and PLA units. Some comrades worried that the scope of the struggle might be broadened, while others cautioned against perfunctoriness. Practice has now proved that the policies outlined in the party Central Committee's Document No 4 are correct and are realistic measures to guide the struggle and stabilize popular feelings.

By calling the struggle against bourgeois liberalization a remarkable success, it does not mean that the struggle is almost completed. Precisely the opposite, we must carry on the struggle in a deepgoing, sound, and sustained way. At present we are faced with the tremendous and difficult job of completing a few tasks that have been set, and should look further to the future. As Comrade Xiaoping has said, the struggle against bourgeois liberalization, which continues through the entire course of the modernization drive, should be carried out for decades. Clearly explaining his view to Czechoslovak Premier Strougal at a meeting on 26 April, Comrade Xiaoping said: We must uphold socialism. But, in order to further build a socialism that is superior to capitalism, it is necessary to first get rid of poor socialism. Although we are building socialism, we will not be able to catch up with the intermediate advanced countries before the middle of the 21st century. Only then can we say justifiably that socialism is superior to capitalism, and that we have really built socialism. Comrade Xiaoping's view is food for thought. Because we are still in the initial stage of socialism, and also for historical reasons, our social productive forces are far behind the level of those of capitalist countries. Despite the initial benefit the people have obtained from socialism, we have still not brought, and still are not

able to bring, into full play the superiority of socialism. Therefore, bourgeois liberalization views may still appeal to certain people. This determines the protracted nature of the struggle. It is impossible to prevent the expression of the ideas of bourgeois liberalization during this protracted process. However, we should be able to gradually weaken the appeal of bourgeois liberalization by conducting ideological and political education in the course of deepening reform and bringing into further play the superiority of socialism, and should be able to prevent fully the ideological trend of bourgeois liberalization from running rampant, as we experienced last winter. It should be pointed out that, as we make reform and open the country to the outside world, it is impossible for us to confine the people to greenhouses and isolate them from undesirable decadent ideas. This increases the complexity and difficulty of ideological and political education. In order to heighten the ability to distinguish [between good and bad], the immunity, and the resistance of the people, young people in particular, it is necessary to improve propaganda and education work. Therefore, how to continue to deepen the education in upholding the four cardinal principles should be a key issue in our study.

What do we mean by "deepening"? It does not mean to launch a political campaign, to require everyone to pass a test, and to whip up a tense political atmosphere. Neither does it mean to demand everyone to meticulously study every theoretical concept, memorize certain articles, and practice formalism by spending a certain amount of time on political study. Deepening means to learn by heart and, most important, to enable the overwhelming majority of people to understand what the four cardinal principles are, and why and how it is necessary to uphold them.

As the people understand the importance of food and clothing, necessities of life that man cannot do without even for a moment, the overwhelming majority of our society must understand that the four cardinal principles are like food and clothing to us and that we cannot be deprived of them even for a moment. To solve this problem, we depend not on a political campaign but on education by positive example. Therefore, to deepen the struggle against bourgeois liberalization it is necessary to attach great importance to education, by positive example, on the fruitful results of construction and reform over the last 8 years. It is necessary to vividly and comprehensively expound the two basic points of the line formulated by the party since the 3d Plenary Session of its 11th CPC Central Committee in order to raise the awareness of all party members and the people throughout the country in implementing the line, principles, and policies pursued by the party since the 3d Plenary Session of the 11th CPC Central Committee so that people of all nationalities will rally more closely and conscientiously around this line by more effectively carrying out comprehensive reform, opening to the outside world, and building socialism with Chinese characteristics. In this way, the four cardinal principles will strike root in the hearts of the people, and we will score remarkable achievements in the policy of carrying out reform and opening to the outside world and improve the outlook of our country with each passing day, thus greatly weakening the appeal of bourgeois liberalization.

With the meaning of "deepening" clarified, there immediately arises the question of how to deepen, that is, how to carry out positive education. To make positive education strike root in the people's minds and produce results requires a great deal of painstaking work of correctly and theoretically answering the various questions of practical concern to people. Some of our theoretical workers are good at writing articles for "mass criticism" but not good at conducting positive education or writing articles which will strike root in people's minds. Recently four or five articles received good responses because the masses felt they could read them through and were receptive to the arguments presented. Such articles are better than the stereotyped, dry party writings which preach in a crude, rigid manner. There is a saying in Guangdong: "Water will never thoroughly wet the feathers of a swimming duck." Like the water on a duck's feathers, stereotyped party writings cannot strike root in people's minds. Some comrades reportedly complained that few people bother to read their articles or attend political classes. Obviously, for some individuals, this involves the question of attitude; they do not want to listen to us at all. However, generally speaking, we cannot blame these readers or these students. On the other hand, the question warrants reflection and study by some of our writers and teachers on themes, contents, materials, and arguments, as well as on phraseology and length, to find out why their articles fail to strike root in people's minds or to touch their hearts. In the past, we awakened and united thousands upon thousands of people with the truth we publicized. Since we are in power today, we should be able to do a better job of propagating truth. Whether a job is done better depends on the effects it produces. Results are stressed in economic work; likewise, effects must be stressed in propaganda work. Positive education must be conducted in a lively, rich, and colorful way; it must uphold principle while being very persuasive. There can be a variety of forms and methods. For example, we could organize a number of comrades who are fairly well versed in Marxist theory and are familiar with China's development and reform to go among the masses to talk to them face to face, answer their questions on matters of concern, and clear up some obscure ideas. By way of dialogue and questions and answers, the speakers can make their points clear in a lively manner. Good and effective dialogues can be selected, transcribed, and edited for publication in newspapers and periodicals. This may produce better effects.

Propaganda work should not be the job of propaganda departments alone; leaders of party and government organizations at various levels should also try to find time to go to the grass roots to make contact with the masses and propagate the truth in simple terms. In short, we must think of more ways and mobilize all resources to solidly carry out positive education in the four cardinal principles and in the struggle against bourgeois liberalization. We must do so to let the broad masses truly understand in theory and in day-to-day practice that the four cardinal principles must be upheld and that bourgeois liberalization must not continue. Today I am merely making a proposal on this task. I would like you to study the methods for carrying out positive education and deepening the struggle against bourgeois liberalization. The Propaganda Department of the CPC Central Committee has been instructed to study this question jointly with various quarters and to come up with some ideas.

To thoroughly carry out the struggle to oppose bourgeois liberalization at present, one more important thing we must do is to make the erring comrades admit and correct their mistakes. I do not mean Wang Ruowang, Liu Binyan, or Fang Lizhi. They have already been expelled from the party for violating party discipline. Of course, we also hope that they will admit and correct their mistakes. But their cases are not the point here. The point here is what was mentioned in Document No 4: "Comrades holding systematically erroneous viewpoints are subject to comradely criticism in regular activities of party organizations." Of course, organizationally speaking, this matter should be handled within the proper bounds of policy, facts should be verified, and the persons involved should be entitled to self-defense. On the one hand, erring comrades should modestly accept the party's criticism and assistance. As Communist Party members, they should observe the party program and Constitution. Now that [jin ran 2478 3544] you have violated the party program and Constitution and said and done something wrong, should you not admit your mistakes and actively repair the damage done? If you refused to make self-criticism, would you have a sense of responsibility toward the party's cause? Would that be the attitude of a Communist Party member? Those who can admit and correct their mistakes are good comrades. The party has formulated the policy of curing the sickness to save the patient, and of promoting unity. Erring comrades should accept this policy. Otherwise, the policy would not be effective, no matter how good it is. Persisting in one's errors is not good for the state, the party, the people, and for oneself. Opposing bourgeois liberalization is a long-term affair. Do not expect it to create an uproar and then diminish without achieving any practical results. He who commits mistakes should make self-criticism and should not resist criticism. The seriousness of this problem should be clearly explained.

Much arduous work remains to be done in order to thoroughly carry out the struggle to oppose bourgeois liberalization. The central authorities' documents on consolidating the press should be earnestly implemented. A long-term task concerns the building of a contingent of theoreticians, which should be listed as an item on the agenda of party committees and propaganda and theoretical departments at all levels. Today, I will dwell on only two points: One, that we must implant positive education deep in the people's minds; the other, that we must continue to educate comrades who have committed serious mistakes until they admit and correct their mistakes.

## II. Enhance Publicity on Reform

A few days ago, when I reported on work to Comrade Xiaoping, he said: Last year's commotion should not affect reform and the open policy. Reform should be upheld and accelerated. Comrade Xiaoping wanted us to call a meeting and organize some people to write articles to publicize reform.

The line since the 3d Plenary Session of the 11th CPC Central Committee is to seek truth from facts, to proceed from China's actual conditions, and to build socialism with Chinese characteristics. This line has two basic points: upholding the four cardinal principles and adhering to the policy of making reform, opening to the outside world, and invigorating the economy. Because



the party line has two basic points, party propaganda work should also firmly adhere to these two basic points. Neither one is dispensable. The reason is clear enough: Reform, including opening to the outside world and invigorating the economy, is the new contribution and content of the line since the 3d Plenary Session of the 11th CPC Central Committee. Since the founding of new China, we have consistently upheld the four cardinal principles. It was not until after the 3d Plenary Session of the 11th CPC Central Committee that our party called for making reform, opening to the outside world, and invigorating the domestic economy. Reform is also a revolution in terms of emancipating the productive forces. Now even the Soviet Union is going through reform. Reform has become the trend of the socialist world. Without reform, there is no future. The four adherences are our basic principles. Reform, opening to the outside world, and invigorating the economy constitute the general principle and policy for achieving socialist modernization. Failing to uphold the four cardinal principles would make it impossible to continue with reform, opening to the outside world, and invigorating the economy. Without making reform, opening to the outside world, and invigorating the economy, it would be impossible to properly uphold the four cardinal principles. Failing to uphold the four cardinal principles is bound to lead to bourgeois liberalization. This is easy to understand. In fact, bourgeois liberalization will certainly be abetted without reform. This is because only reform can arouse the people's initiative and creativeness, and thus greatly developing the productive forces, giving full scope to socialism's superiority, and making socialism genuinely more attractive. Without reform, the development of productive forces would be restricted, the manifestation of socialist superiority would be limited, and thus socialism would look rather unattractive. Would it not give bourgeois liberalization a big boost? Thus, there is unity between the two basic points. We should not reject one point by using the other, or vice versa. The relationship between the two is like the one between lips and teeth, and not one that is mutually exclusive. The unity between the two basic points is the whole idea behind the line adopted since the 3d Plenary Session of the 11th CPC Central Committee. It represents socialism with Chinese characteristics, which is a practical, scientific socialism with vitality, with flesh and blood.

Among our cadres, however, some have the misconception that our reform and open policy are incompatible with upholding the four cardinal principles. It seems to them that advocating reform and opening to the outside world means ignoring the four cardinal principles; it also seems to them that reform and opening to the outside world should be "controlled" when there is a call for combating liberalization. As far as specific steps are concerned, reform and opening to the outside world must sometimes be sped up or slowed down in certain areas. On the whole, however, we must undoubtedly continue to deepen reform and open to the outside world, and the question of "control" simply does not exist. It is noteworthy that certain erroneous views reflecting skepticism and reservation regarding reform and opening to the outside world have appeared recently. For example:

--On the economic situation, certain people actually think that the current economic situation is very poor and the economy chaotic because of the restructuring of the economic system.

--Certain people regard the enterprise contract and leasing system, which is part of economic reform, as "promoting private ownership." Some people regard the system of the factory director's responsibility as "abolishing party leadership." Some regard contracts linking household output with remuneration as "undermining the collective economic foundation." Still others pit economic planning against commodity economy, maintaining that planned economy is socialist and commodity economy is capitalist, and that promoting commodity economy is tantamount to promoting capitalism and the root cause of bourgeois liberalization.

--On political reform, some people maintain that combating bourgeois liberalization means that there is no need to carry out political reform. Even though this issue has now been clarified in Comrade Xiaoping's talks on several occasions, there are still people who think that political reform is the same as detracting party leadership. Some people are skeptical of separation of party leadership and government administration; and some, in the name of intensifying ideological-political work, demand political organs to be expanded with more political cadres. Some people are afraid to talk about fostering socialist democracy and emancipating the mind whenever the need to combat bourgeois liberalization is discussed. Still other people regard legitimate democratic demands as liberal thinking and suppress the masses' legitimate criticisms of our defects, mistakes, and irregularities for that reason.

--Some people also criticize the open policy, saying that this policy is the cause of widespread liberalization. Some people distort the open policy, saying "yesterday we leaned toward the East; today we lean toward the West."

Of course, not many comrades hold these views, and the problem is primarily one of understanding. It is understandable that people have different views regarding reform, which is something new. I believe that, in the course of reform, there will be a convergence of views. In fact, when we review the various arguments on reform during the past 8 years, we can see that we all have gained a better and deeper understanding. But we must point out that although reform has gone on for 8 years, the theoretical study of reform, and its publicity and education, are still quite inadequate.

Some people also said recently that "to oppose political liberalization," it is imperative to oppose economic liberalization; that "opposition to liberalization today is only opposition to those who talk about liberalization, and not to those who practice liberalization"; and that "the deepest cause of bourgeois liberalization can be found in the economic sphere." Some have proposed that the "restrictions" in Document No 4 should be smashed so that the struggle against bourgeois liberalization can be extended to the economic sphere. Are these views correct? No. The Central Committee has clearly prescribed in its Document No 4 that opposition to bourgeois liberalization should have clearly defined scope, and that it should not be associated with economic reform policies, rural policies, or other things. It has been so prescribed because: 1) the current policies were drawn up by the central authorities and they themselves have no problem regarding liberalization or no liberalization; and 2) the stability of the

current policies is essential for economic stability, and the public must not be confused. Let me ask: Who would be responsible for the chaos if the current policies were interpreted as liberalization, and people would be stricken with panic and give up production and businesses, and chop down the trees they have planted and slaughter the pigs they have raised? Thus, the argument for so-called smashing the "restrictions" in Document No 4 is an irresponsible argument which is wrong politically and devoid of discipline organizationally. Such an argument has nothing to do with our objective of combating bourgeois liberalization and upholding the four cardinal principles. Although such an argument is supported only by a few people, it has had a relatively great influence, which should not be ignored in propaganda work.

The efforts we made recently to publicize the need to combat bourgeois liberalization were essential for dealing with this pressing problem. From now on, equal emphasis should be placed on positive education on the four cardinal principles and on publicizing reform, opening up to the outside world, and enlivening the economy. Neither should be overemphasized at the expense of the other, and they should promote one another. All comrades engaged in propaganda, educational, theoretical, and journalistic work must understand that rejecting reform will eventually lead to rejecting the four cardinal principles; similarly, rejecting the four cardinal principles will eventually lead to rejecting reform. Only when we firmly grasp these two basic points can political stability and unity and economic prosperity and liveliness, which are mutually conditional, be achieved and can we successfully build a socialist society with distinctive Chinese characteristics.

We should do a good job in publicizing economic reform. We should publicize the practical and theoretical achievements in reform over the past several years. We should publicize the socialist nature of reform over the past several years. We should publicize the correctness and stability of our current policies. We should publicize our national situation and the protracted nature, complexity, and arduousness of reform so that we can constantly improve people's understanding and acceptance of reform. We should publicize the idea of closely integrating economic development and economic reform, and help people understand that China's economic rejuvenation lies in reform.

Publicizing economic reform depends not only on how many articles are written (the space our papers have devoted to publishing articles on reform should not be considered small); more importantly, it should also depend on what viewpoints are presented in analyzing problems. Today, a noteworthy phenomenon has appeared in economic theoretical study: Some comrades interpret whatever is proved by practice as being conducive to liberating productive forces and expediting China's socialist modernization as capitalist, and whatever restricts productive forces as socialist. Productive forces and production relations must be examined as a whole. The idea of studying production relations separately without considering the development of productive forces is not Marxist. The principal yardstick in judging whether something is progressive or retrogressive is to see whether it can liberate society's productive forces, and practice is the only criterion for examining

truth. Today, outmoded, stagnant, and ossified viewpoints that are divorced from actual work and actual life are still quite a serious problem in economic theoretical study. These views restrict the minds of some comrades. Throughout the process of reform and opening to the outside world, we must make constant efforts to eradicate the influence of the force of habit, and smash those to eradicate the influence of the force of habit, and smash those viewpoints that are outmoded, stagnant, and ossified. Thus, in the course of studying economic theories, we must continue to emancipate our minds and explore courageously. Unless we do so, our theoretical work cannot proceed and guide our work.

Not only should we publicize economic reform, we should gradually also publicize political reform. The 13th party congress will present an outline of political reform. We should therefore do good ideological work and prepare public opinion in this regard. With Comrade Xiaoping's consent, the speech "On the Reform of the System of Party and State Leadership" he made on 18 August 1980 will be republished on 1 July. The speech, which has been discussed and approved by the Political Bureau of the CPC Central Committee, is a document of guiding significance in China's political reform. It must be properly publicized and studied until all party members' understanding is at one with the speech and with Comrade Xiaoping's thinking on reform. When Comrade Xiaoping's speech is published, RENMIN RIBAO, HONGQI, and other papers and journals must also carry editorials. Since political reform is a very sensitive subject in publicity work, it is necessary to exercise special caution, pay attention to what to say and what not to say, and prepare some special articles for newspapers and journals to publish.

While propagating the four cardinal principles and economic and political structural reform, attention must also be paid to propagating Comrade Xiaoping's thought. Since the convocation of the 3d Plenary Session of the 11th CPC Central Committee, Comrade Xiaoping has presented many brilliant expositions on proceeding from reality and building a Chinese-style socialism; on upholding the four cardinal principles and combating bourgeois liberalization; and on economic and political reform, opening to the outside world, and building socialist spiritual civilization. These thoughts of Comrade Xiaoping are a summation of our party's actual experience and a crystallization of our collective wisdom. They are examples of the integration of universal Marxist truth with China's realities, and a major development of Marxism in China. Theoretical work must be done by studying, researching, comprehending, and publicizing the new developments in our party's theoretical work. These new developments represent living Marxism; they have greatly enriched scientific socialism. Our theoretical workers must work hard for the further development of Marxism in China. Like Comrade Xiaoping, they should integrate universal Marxist truth with the realities of construction and reform in China, study the new situation, and answer the new questions arising in actual life.

In short, positive education in combating bourgeois liberalization must be deepened, and socialist reform must be publicized. Both should be emphasized, but neither should be overemphasized at the expense of the other. The Propaganda Department of the CPC Central Committee should study the specific measures and come up with a plan.

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CSO: 4005/988

THE CPC CENTRAL COMMITTEE'S DECISION CONCERNING THE CURRENT SITUATION AND THE PARTY'S TASKS (AT THE LUOCHUAN MEETING ON 25 AUGUST 1937)

Beijing HONGQI [RED FLAG] in Chinese No 14, 16 Jul 87 p 8

[Published in commemoration of the 50th anniversary of the "7 July Incident"]

[Text] 1. The provocation at the Lugou Bridge and the occupation of Beiping and Tianjin are but the start of large-scale Japanese invasion of the Chinese inland. The Japanese invaders have already begun nationwide military mobilization. Their so-called "no demand for expansion" propaganda was only a smokescreen to cover up their aggression.

2. Under the pressure of Japanese offensive and the indignation of the people, the Nanjing government has begun to firm up the decision to carry out a war of resistance. Deployment of the entire national defense as well as actual resistance everywhere have also started. The Sino-Japan war is inevitable. The resistance battle at Lugou Bridge on 7 July has become the rallying point of China's national war of resistance.

3. Henceforth, the political situation in China enters a new stage, that is, the stage of actual war of resistance. The preparatory stage of this war is now over. The central task of this stage is: mobilize all forces to achieve victory in the war of resistance. In the previous stage, owing to the refusal of the Kuomintang and the insufficient mobilization of the people, the task of attaining democracy was not completed, and this must now be accomplished in the course of winning victory in the war of resistance.

4. In this new stage, the differences and disputes between us and the Kuomintang and other anti-Japanese factions are no longer on questions of whether or not to carry out war of resistance, but rather on how to attain victory in the war of resistance.

5. The central key to winning the war of resistance today lies in developing the ongoing war of resistance into an all-out national war of resistance. Only with this kind of all-out national war of resistance can final victory be attained. The 10 major programs on resisting Japanese aggression and saving the country that was put forward today by our party is the concrete path toward achieving the final victory in the war of resistance.

6. Today's war of resistance still contains elements of extreme great danger, principally because the Kuomintang still refuses to mobilize the people of the entire country into taking part in the war of resistance. On the contrary, they regard the war as a governmental matter, and are forever afraid and restricting the people from taking part in the war movement, preventing the government and troops from uniting with the people, refusing the people the democratic right to fight Japanese aggression and save the country, and not thoroughly reforming the political machinery that would transform the government into a national defense government. This kind of war of resistance could gain partial victory but would never attain final victory. On the contrary, the possibility of serious defeat exists in this kind of war of resistance.

7. Owing to the serious weaknesses still existing in the current war of resistance, defeats, retreats, internal divisions, betrayals, temporary and partial compromises and many other unfavorable situations could take place in the course of the war of resistance hereafter. Therefore, it is necessary to look at this war as a very difficult protracted war. However, we believe that because of the efforts of our party and the people of the entire country, the ongoing war of resistance will definitely smash all obstacles and continue to advance and develop. We should overcome all difficulties and struggle resolutely to realize the 10 major programs on attaining victory in the war of resistance as put forward by our party. At the same time, it is necessary to oppose firmly all erroneous guidelines and principles as well as pessimistic national defeatism.

8. The Communist Party, along with the people and armed forces under its leadership, should most actively stand in the frontline of the struggle, make itself the core of the national war of resistance, and apply the greatest efforts to develop the anti-Japanese mass movement. They should not let pass any moment or any opportunity to conduct propaganda among the people, to organize and arm them. As long as millions and millions of people are genuinely organized into the national united front, there can be no doubt in the victory of the war of resistance.

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CSO: 4005/948

## THE GREAT HISTORICAL SIGNIFICANCE OF THE 8-YEAR WAR OF RESISTANCE

Beijing HONGQI [RED FLAG] in Chinese No 14, 16 Jul 87 pp 9-14

[Article by Hu Qiaomu]

[Text] On 7 July 1937, the invading Japanese Army attacked Chinese troops stationed in Lugouqiao. This event triggered off the 8-year anti-Japanese war by the Chinese Army and people. This war not only greatly speeded up the development of China's revolutionary history, but also changed the abnormal conditions in Sino-Japanese relations over the previous 100 years. After defeating the Japanese invaders, the Chinese people again rapidly won victory in the 3-year liberation war and founded the great PRC. Due to the long-term, painstaking efforts of the PRC Government, the Chinese and Japanese people and organizations who endeavored to develop friendship between the two nations, and Japanese statesmen of insight, and also due to changes in the international situation, on 29 September 1972, Japanese Prime Minister Kakuei Tanaka conformed to the historical trend of the times by visiting China and signing the Joint Statement of the Chinese and Japanese Governments with Premier Zhou Enlai. In 1978, the two countries concluded the Sino-Japanese Peace and Friendship Treaty. This brought about a new situation which was favorable to peace and Sino-Japanese friendship in international relations in the Far East. The mountains and the seas remain the same, but the world situation has completely changed. The Japanese imperialists who launched the war of aggression against China in those years could never have expected such results.

The Japanese imperialists for a long time cherished the wild ambition of first conquering China and then conquering the whole world. Japan's war of aggression against China, from 1894 to 1895 (which was also called the Jiawu War), led to the conclusion of the Maguan Treaty, signed with Japan by Li Hongzhang on behalf of the Qing government after China suffered a heavy defeat in the war. That was a treaty of national betrayal and humiliation, according to which Taiwan and some nearby islands were ceded to Japan; the Japanese were allowed to set up consulates and run factories in various Chinese ports and export machinery to China; and China could not arrest Chinese traitors who served the Japanese Army. Japan was not the first imperialist country to invade China. But we should particularly notice that Japan occupied our sacred territory--Taiwan--for as long as some half a century. After the end of World War II Taiwan was returned to the motherland,

and when China and Japan established diplomatic relations, Japan also recognized that Taiwan is an inseparable part of the PRC. However, some people in Japan at present still spread the opinion that "the ownership of the island of Taiwan has not been finally determined," and try to create "one China, one Taiwan" or "two Chinas" in various forms.

After the Jiawu War between China and Japan, a pro-Japanese faction began to appear in the ruling class in China. This faction was eliminated once and for all when the PRC was founded.

After the 1911 Revolution, led by Dr Sun Yat-sen, the leader of the democratic revolution, Yuan Shikai, a warlord of northern China who was pro-Japanese, grabbed the fruits of the revolution. Then another warlord from Anhui Province, Duan Qirui, who was even more pro-Japanese, took control of the Beijing government. During this period, the May 4th patriotic student movement emerged in 1919 as the first page of China's new democratic revolution. The movement broke out because the people opposed the decision made by the imperialist powers--the United States, Britain, France, Italy, and Japan--at the Paris Peace Conference, to shift the German imperialists' privileges in Shandong Province to Japan, while the Duan Qirui government (in the name of President Xu Schichang) was prepared to sign the peace treaty at the peace conference. The students' anti-Japanese patriotic movement in Beijing then rapidly spread to all parts of the country. (Footnote 1) (The decision on the Shandong issue in the Paris Peace Treaty was adopted according to the proposal put forward by the Japanese Government, which insisted on including it in the peace treaty. Since the purpose of the May 4th Movement was to oppose the Paris Peace Treaty, it can certainly be regarded as an anti-Japanese patriotic movement. However, the Paris Peace Conference was jointly held by such superpowers as the United States, Britain, and France (Japan in fact did not participate in the war, and its position was similar to that of the United States), and U.S. President Wilson put forward two amendments. First, he proposed that the German privileges be temporarily taken over by the peace conference, and then he proposed that the German privileges be put under the joint control of the United States, Britain, France, Italy, and Japan. So the nature of these arrangements was still imperialistic aggression, and the difference was just replacing one country's occupation with five countries' joint control. The position of the United States shattered the dream of many Chinese people who thought that the end of the war in Europe indicated that "justice would defeat power." Since the May 4th Movement opposed the Paris Peace Treaty formulated by the Western powers, it can also be regarded as an anti-imperialist patriotic movement, although the slogan of anti-imperialism was not put forth at that time.) The student strikes rapidly extended to strikes by workers and shopkeepers. This forced the Beijing government to dismiss the most notorious pro-Japanese traitors, Cao Rulin, Lu Zongxing, and Zhang Zongxiang, from office on 10 June. But the struggle did not end, because the issue concerning the peace treaty had not been solved. The students, workers, and people in all walks of life in Shandong, Beijing, Shanghai, and other parts of the country continued their struggle and firmly demanded that the government refuse to sign the Paris Peace Treaty. Chinese workers in France (they were mainly sent to France as a step by China to participate in the European war), together with Chinese students



and residents in France, surrounded the living quarters of the Chinese delegation, headed by Lu Zhengxiang, on 27 June, the day before the signing of the peace treaty, and issued a number of serious warnings. Lu Zhengxiang, the chief delegate, dared not sign the peace treaty and sent a secret telegram to the Beijing government: "Upon careful consideration, I could not but give up the plan to sign the treaty at that time." Thus, this nationwide mass revolutionary struggle against Japanese imperialism and other imperialist powers and against the warlord and traitor rulers in China, launched by the Chinese students, workers, and people in all walks of life (the first of this kind in modern Chinese history) won a great victory, which could be won under the current conditions, and scored greater achievements than the 1911 Revolution. The struggle dealt a heavy blow to the arrogant Japanese imperialists and the pro-Japanese traitors in China. Here, we are talking about the May 4th Movement in detail because we want to show that the Chinese people's new democratic revolution began precisely with a national struggle against Japan's aggression. (This article will prove that the anti-Japanese war brought about the critical turning point in this revolution.) One of the main achievements of the continuing development of the May 4th Movement was the founding of the CPC, which 16 years later became the leader in the Chinese people's war against the Japanese invaders and the first round of cooperation between the CPC and the KMT.

For a long period after its founding, the CPC carried out a great many struggles against Japan's aggression. For example, the "May 30" Movement in 1925 resulted from the killing of Gu Zhenghong, a CPC member and a worker representative of a textile mill in Shanghai, by the Japanese capitalists, and this movement marked the beginning of the great revolution from 1925 to 1927. Unfortunately, this great revolution came to a premature end in April 1927. Due to the betrayal by the KMT reactionaries midway through the revolution in 1927, communists, KMT left-wingers, and a large number of workers and peasants became victims of the bloody White terror. The communists had no other choice but to begin the agrarian revolution in the rural areas, build the people's revolutionary army, and fight the 10-year arduous civil war against the reactionaries. Of course, the communists, the revolutionary masses, and progressive personages in areas under KMT rule did not stop the struggle either.

During the 10 years of KMT counterrevolutionary rule and civil war, the Japanese invaders adopted various barbarous and vicious means to annex vast areas of Chinese territory and to trample on the Chinese nation. In 1931, Japan used armed force to occupy the three provinces in northeast China. Then, it continued to expand its influence to Nei Monggol and eastern Hebei Province, and occupied Shanghai for some time. The Japanese imperialists had formulated their plan to carry out aggression against China as early as 3 months after Chiang Kai-shek betrayed the revolution. In July 1927, Japanese Prime Minister Giichi Tanaka said in an official report to the Japanese emperor that "In order to conquer China, we must first conquer Manchuria and Mongolia; in order to conquer the world, we must first conquer China." In fact, Japan actually acted step by step according to this plan. Britain and the United States simply looked on unconcerned until Japan raided Pearl Harbor in December 1941. (At that time, the United States was

negotiating with Japan with great interest a big business deal on waste steel. It declared war on Japan only immediately after the raid. Britain also took the same step, but Britain's strength at that time was far less than that of the United States.) The Japanese imperialists indeed thought that they could go anywhere they wanted without meeting resistance in East Asia, and even dreamed that they could join forces with Hitler somewhere in Asia. However, Chiang Kai-shek, for 5 years after the "18 September" incident, had shouted out orders that the army of the KMT government should implement the "no resistance" policy toward the Japanese troops and the policy of "suppressing domestic riots before resisting foreign aggression" internally. These policies that brought calamity to the country precisely met the needs of the Japanese invaders.

After the "18 September" incident in 1931, the CPC gave full support to the partial anti-Japanese battles fought by the troops commanded by General Ma Zhanshan, General Cai Tingjie, General Feng Yuxiang, and General Fu Zuoyi, led the anti-Japanese guerrilla war for a long time in northeast China, dispatched a vanguard contingent of the Red Army for Jiangxi to north China to fight against the Japanese invaders, and led the main force of the Red Army on an expedition eastward to the anti-Japanese frontline. In the above-mentioned brave struggles, Ji Hongchang, Yang Jingyu, Fan Zhimin, Liu Zhidan, and many outstanding national heroes sacrificed their lives. However, there was no fundamental change in the situation in the civil war until 1936, the year before the outbreak of the nationwide general anti-Japanese war. First, the CPC central leading organs arrived in northern Shaanxi in October 1935, after commanding the Red Army in completing the 25,000-li Long March. The CPC successfully conducted a great deal of education on forming the national anti-Japanese united front and on joining forces to fight against the Japanese invaders by stopping the civil war for General Zhang Xueliang and General Yang Hucheng in Shaanxi and the Northeast Army and the Northwest Army commanded by them, thus promoting the upsurge of the anti-Japanese national salvation movement among the people of all walks of life in Shaanxi. This special situation in Shaanxi became a key factor that influenced the development of the national situation. Second, on 9 December 1935, under the leadership of the underground CPC organization, the students in Beijing started a large-scale patriotic movement to demand a halt to the civil war, resistance against Japanese aggression, and the saving of the nation from extinction. This movement rapidly spread to all parts of the country and involved people of all walks of life, gathering momentum even greater than that of the May 4th Movement in 1919. Many noted public figures, university professors, Overseas Chinese, and the KMT patriots represented by Song Qingling also took an active part in the movement, which had a strong impact on the situation in Shaanxi and in the whole country. Third, Chiang Kai-shek came to Xian to force Generals Zhang and Yang to continue the war against the CPC, and flatly rejected the two generals' patriotic demand for a halt to the civil war and joint resistance against Japanese aggression. This made the situation very tense, and forced Zhang and Yang to take action to abduct Chiang Kai-shek (this being known as the "Xian Incident"). The CPC promptly sent a delegation to help Zhang and Yang and to persuade Chiang Kai-shek to change his position, and the CPC's efforts led to the peaceful settlement of this incident and laid the foundation for another round of cooperation between the two parties and for the

preparation for the nationwide anti-Japanese war. It is highly regrettable that the two patriotic generals who made such outstanding contributions to the nation's unity in the war of resistance were not treated fairly, as Zhang Xueliang has been deprived of freedom until now and Yang Hucheng was arrested after he returned from abroad and was killed before the liberation of Chongqing in 1949. The Northeast Army and the Northwest Army commanded by them disintegrated after the peaceful settlement of the Xian Incident.

That was how the anti-Japanese war began 50 years ago. Before the war broke out and from the beginning to the end of the war, the CPC always held the political initiative. We fully affirmed the meritorious services of all patriotic officers and soldiers of the KMT government army, especially those who sacrificed their lives in the war. However, Chiang Kai-shek's government pursued an erroneous policy of partial resistance (which meant that only the army, rather than all the people, should be involved in the war of resistance) from the early stages of the war of resistance, and in 1939 began to pursue a reactionary policy of fighting passively against the Japanese Army but fighting actively against the communists and suppressing the people. As a result, most of its troops lost their combat effectiveness. In 1944, the year before Japan's surrender, the invading Japanese troops could still launch a large-scale offensive in Henan and occupy parts of Guangxi and Guizhou in a short time, thus shocking the wartime capital of Chongqing. On the other hand, the bureaucratic capitalists, represented by the four major families of Chiang, Soong, Kong, and Chen, took advantage of the war of resistance to line their own pockets. The serious corruption of the KMT reactionaries evoked great indignation among the democratic parties and patriotic people. Even American General Stilwell (while commemorating the 50th anniversary of the war of resistance against Japan, the Chinese people warmly welcome the visit of the daughter of this American friend, who was long ago relieved of his post), commander of the allied armies in China, India, and Burma and also chief of staff for Chiang Kai-shek, also proposed that the U.S. Government reduce assistance to Chiang Kai-shek (this assistance was later used by Chiang to prepare for a new civil war rather than being used for resisting Japanese aggression) and increase assistance to the CPC. In the winter of 1943, General Zhang Zhizhong, a famous general who was trusted by Chiang at that time, gave this direct advice to Chiang: "The most worrying things at present are people's desire for some changes and the loss of the Army's morale." "The criticism from some friendly nations, even that from the most friendly ally, America, have reached an unbearable level." ("The Reminiscences of Zhang Zhizhong," pp 394-395, 1985 version, published by the Publishing House of Historical Materials. This is a good book worthy of being read.) This showed that the KMT was facing a serious crisis and that its reputation had become very bad, and this was a fact generally recognized by people in China and other countries.

On the other hand, the CPC headed by Chairman Mao Zedong, politically persisted in resistance against Japan and opposed surrender, persisted in unity and opposed division, and persisted in progress and opposed retrogression. Militarily, the CPC adopted flexible strategies and tactics. The powerful political work ensured that the party and the government and the Army and people united as one, struggled hard, and shared a common destiny. In face

of the extremely vicious enemy, the anti-Japanese army and people had both wisdom and courage, and became stronger and stronger in the war. Today, when recalling those years of the earthshaking life of fighting, just like a raging fire, everyone will have a sense of self-pride; everyone will exert himself to restore and develop the fine style during the anti-Japanese war, revolutionary martyrs who stepped into the breach one after another, and take them as life-long examples. In sum, the people's anti-Japanese forces, led by the CPC, enjoyed higher and higher prestige and became stronger and stronger during the 8 years of the anti-Japanese war. By 1943, the 8th Route Army, the New 4th Army, and other people's anti-Japanese armed forces led by the CPC were resisting 64 percent of the Japanese Army invading China and 95 percent of the puppet troops. By April 1945, the number of CPC members had increased to more than 1.2 million from tens of thousands before the anti-Japanese war; the revolutionary army led by the party (not including the vast numbers of people's militia) had developed to some 910,000 from tens of thousands; and the population of liberated areas under the party's leadership had increased to some 95.5 million. The people's revolutionary force, led by the Communist Party, was small in quantity compared to the KMT force, but they were totally different in quality. One was rising with each passing day, the other was on the verge of collapse. Consequently, after 8 years of the anti-Japanese war, the CPC actually had a latent edge over the KMT.

After the end of the anti-Japanese war, Chiang Kai-shek clung obstinately to his course and launched a general civil war in June 1946. He believed that as the KMT government army had conserved its strength and stored up its energy for a long time in the rear and was well-equipped, and as the U.S. Government continued to assist him militarily, financially, and economically, he could thoroughly wipe out the "communist bandits" in as little as 3 months. However, history mocked him. Not only did Chiang Kai-shek fail to achieve his schedule, which he delayed again and again, but he saw with his own eyes, 3 years later, how the PLA crossed the Chang Jiang and swiftly liberated the Chinese mainland, and he himself had to flee to Taiwan. "Were nature sentient, she too would pass from youth to age, but man's world is mutable; seas become mulberry fields." The collapse of the Chiang Kai-shek kingdom in China reflected the fair judgment passed by history. Things will develop in the opposite direction when they become extreme. In fact, the comparative political and military strengths of the CPC and the KMT had made full preparation for the great victory of the people's liberation war. However, Chiang Kai-shek, who knew nothing about dialectical materialism, could never understand all this.

The victory of the anti-Japanese war and liberation war waged by the Chinese people reveals a truth: In China, whichever political party can unite over 95 percent of patriotic people in the country to solve the problem of national independence based on the alliance of workers and peasants (as Japan, which is close to China, invaded China for a long period and occupied a vast area of Chinese territory, all nationalities in China were on the verge of destruction. So the problem of China's national independence was first of all and naturally the problem of resisting Japanese aggression), and can solve the land problem for the peasants, who account for more than 80 percent of

China's population, can certainly lead China and turn the motherland into a rich, powerful, civilized, and democratic country. On these two issues, the KMT failed and the CPC succeeded. So the Chinese people had no other alternative.

Some people ask: Hasn't the KMT ruling clique done pretty well in Taiwan's economic development? True, it has not done badly, but under totally different historical conditions. The KMT ruled China for 22 years. At that time, people lived under various kinds of suppression by bureaucratic capitalism and in destitution. Under such circumstances, how could they develop economic construction? Comrade Mao Zedong once cited an example to explain this: "It is understandable that others looked down on us in the past, because we made no contribution. China could turn out only tens of thousands of tons of steel in a year, and the steel was in the hands of the Japanese. The KMT and Chiang Kai-shek ruled China for 22 years, but could turn out only tens of thousands of tons of steel in a year." Why did the KMT, which is now ruling Taiwan, achieve nothing on the Chinese mainland during its 22-year rule? Was it due to the Communist Party "making trouble" in the 22 years? No, the KMT ruled the majority of Chinese territory with the sword for a long time. Taiwan did not become a province of China until 1946. We recognize its economic development (although it can only be an orphan in the international community before its peaceful reunification with the mainland), and also realize that this development was essentially linked to vigorous support given by the United States and Japan. Would the United States and Japan treat socialist new China in the same way? Let us set aside their numerous blockades of China for decades. After establishing diplomatic relations with China in the 1970's, mutual economic and cultural contacts have increased greatly and the Chinese Government is determined to make efforts to expand economic and cultural contacts with them on the basis of equality and mutual benefit. But no miracle has ever appeared or will appear under the sun. All this is obvious to all.

Let us return to the original topic. Just as we have said, the 8-year anti-Japanese war was indeed of great and course-reversing significance to the development of the history of the Chinese revolution. Another great significance of the 8-year anti-Japanese war was that it radically changed the international political situation in the Far East. Before the end of its 8-year aggression against China, Japanese imperialism was at the end of its tether and had enemies on every side. In August 1945, the Soviet Army wiped out Japan's Kanto Army and entered Korea.

The U.S. Army achieved one victory after another in the Pacific War and dropped two atom bombs in succession on Japan's Hiroshima and Nagasaki on 6 and 8 August. (It is known to all that we have always been opposed to this method of warfare.) The Chinese people's anti-Japanese troops also launched general counterattacks on Japanese troops stationed in all large and medium-sized cities. Japan declared unconditional surrender on 15 August and officially signed the surrender document on 2 September. The Japanese parliament adopted a "constitution of peace," in which Article 9 explicitly stipulates: "As a means for settling international disputes, Japan gives up forever the right to launch a war as a sovereign country and the right to use

armed force as a threat," and "Japan does not recognize the state's right to declare war." From January 1946 to November 1948, the Far East International Military Tribunal, consisting of representatives from 11 countries including China, the Soviet Union, the United States, and Britain, tried Japan's principal war criminals and sentenced seven, namely Gideki Tojo, Kenji Dohihara, Koki Hiroda, Seishiro Itagaki, Hyotaro Kimura, Iwane Matsui, and Akira Takeu, to death by hanging. Less than 1 year after that, the PRC was founded. Old China, which had all along been described as the sick man of East Asia, was gone forever. Old situations in the Far East and the world were also gone forever. This also proves that those who ignore the fact that things will develop in the opposite direction when they become extreme will inevitably be punished by the truth.

Events that happened in Japan both before and after Japan's surrender are things of the past and we are unwilling to mention them again. However, there is now indeed a handful of people in Japan whom we should not underestimate and who are pretending to forget or are attempting to change these historical facts that should not be forgotten and which cannot be changed. Some people sing the praises of the war of aggression and the war criminals who launched it, and others are preparing public opinion for the negation of the Tokyo trial. All these moves have naturally disturbed peace-loving people and the broad masses in Japan, as well as caused worries in China and other Asian countries and regions which were once invaded by Japan.

China suffered most from Japanese aggression. During the 8 years of the anti-Japanese war, nearly 10 million soldiers and civilians were killed and more than 11 million were injured (in the Nanjing massacre alone, which shocked the world, more than 300,000 people were killed). And the losses and damage to property amounted to some \$60 billion. However, socialist new China has always held that China and Japan are close neighbors separated only by a strip of water. They had a friendly history of some 1,000 years and their unfriendly relations lasted less than 100 years. Moreover, the war of aggression against China was launched by Japanese imperialists, and Japanese people were also victims of the war. Therefore, since the establishment of the PRC, China has all along been making efforts to remove obstacles set up by the Japanese Government and to develop friendly ties between the Chinese and Japanese peoples and contacts in the economic (mainly medium-sized and small enterprises), cultural, scientific, religious, workers' movement, and agricultural fields. As early as in 1952, China received three Japanese members of Parliament, namely Kazue Hoashi, Atsushi Kora (female), and Yoshisike Miyakoshi, and signed nongovernmental trade contracts. Since 1953, China has helped nearly 40,000 Overseas Japanese to return home and some nongovernmental organizations in Japan have also sent back to China the remains of some 3,000 Chinese martyrs who died in Japan. More than 1,000 Japanese war criminals, who were released by the Wushun War Criminals Management Center before their sentences expired, were also sent back to Japan without a hitch. After returning to Japan, many Japanese officers and soldiers who participated in the war of aggression against China became activists propagating "no more war between Japan and China" and advocating friendship between the Japanese and Chinese peoples.

However, the development of friendly relations between the Chinese and Japanese peoples was again and again obstructed and disturbed by the Japanese ruling group, which was hostile to China. In 1958, Premier Zhou Enlai put forward the famous "three political principles," which required of the Japanese Government that 1) it not pursue a policy of hostility toward China; 2) it not create "two Chinas"; and 3) it not obstruct the normalization of relations between the two countries. Japan's Ikeda cabinet, which was formed in the autumn of 1960, began to change the attitude, and the friendly activities carried out by Kenzo Matsumura, a veteran statesman of the Liberal Democratic Party of Japan, and other Japanese statesmen and businessmen reached a new stage in 1964. The two sides concluded an agreement on the setting up of permanent liaison offices by the Liao Chengzhi office and the Tatsunosuke Takasaki office in each other's capitals and an agreement on exchanging resident correspondents. On 29 September 1972, the Chinese and Japanese Governments signed the Sino-Japanese Joint Statement, which announced that "the Japanese side deeply feels that Japan bears responsibility for the serious losses caused to the Chinese people due to the war in the past, and expresses its profound self-reproach." The Japanese side also reiterated that it would seek the normalization of Sino-Japanese diplomatic relations on the basis of fully understanding the PRC Government's "three principles for the restoration of diplomatic relations" (that is, the PRC Government is the sole legal government of China; Taiwan is an inseparable part of Chinese territory; and the Japan-Taiwan treaty is illegal and invalid and must be abrogated). The joint statement stipulated: "The Government of Japan recognized that the PRC Government is the sole legal government of China." "The PRC Government reiterated: Taiwan is an inseparable part of the territory of the PRC. The Japanese Government fully understands and respects this position of the Chinese Government and will constantly observe the position as prescribed in Article 8 of the Potsdam Proclamation." (Footnote 2) (Article 8 of the Potsdam Proclamation stipulates: "Japanese sovereignty will be strictly limited to Honshu, Hokkaido, Kyushu, Shikoku, and other small islands determined by the signatories to this document.") Before that, Chairman Mao Zedong met with Prime Minister Kakuei Tanaka, and both sides held serious and friendly talks. Then, China and Japan established diplomatic relations on an equal footing. This terminated China's painful and protracted history of suffering from Japanese aggression, and bilateral relations between the two countries were shifted to an unprecedented new orbit. Chairman Mao, Premier Zhou, and Japanese statesmen of foresight made valuable contribution to this development of behalf of the people of the two countries. The Chinese people will always remember all organizations and individuals that have made painstaking contributions to Sino-Japanese friendship and to the normalization of the two countries' diplomatic relations.

Since the establishment of Sino-Japanese diplomatic relations, Sino-Japanese friendly relations have made new developments. In August 1978, the two countries concluded the peace and friendship treaty. The treaty reaffirmed that the Sino-Japanese Joint Statement is "the foundation for peaceful and friendly relations between the two countries, and all principles specified in the joint statement must be strictly observed." The treaty also set out important stipulations on the principles which will guide the development of

bilateral relations in the future. These principles include the points that "both signatories to the treaty will continue to make efforts to further develop the intercourse between the two peoples in a good-neighborly and friendly spirit according to the principles of equality, mutual benefit, and noninterference in each other's internal affairs" and that "neither of the countries should seek hegemony in the Asia-Pacific region or any other region and both countries will oppose the efforts of any other country or group of countries to seek such hegemony." In October 1978, Vice Premier Deng Xiaoping went to Japan on behalf of the Chinese Government to exchange the instruments of ratification for this treaty and at the same time to make a friendly visit to Japan. In 1982 and 1983, China and Japan established the four principles governing Sino-Japanese relations, namely peace and friendship, equality and mutual benefit, mutual trust, and lasting stability.

As the saying goes, the realization of something good is usually preceded by rough progress. The development of Sino-Japanese friendly relations has not always been smooth sailing. In recent years, a number of controversial events have occurred.

In 1982, there was the history textbook incident, in which the compiler of a textbook tried to deny the historical fact of Japan's aggression against China; in 1985, the Japanese prime minister and other cabinet members officially attended a memorial ceremony held at the Yasukuni Shrine to commemorate war criminals; and recently, an outstanding event is the Kokaryo [Guanghua] case, in which a Japanese court ruled that this state property of China belongs to Taiwan. These incidents are obviously unfavorable to the friendship between the Chinese and Japanese peoples generation after generation.

What do the above-mentioned incidents show? They just show that so far the Japanese authorities still just pay lip service to, but have not yet taken concrete action to seriously implement, the principles prescribed by the Sino-Japanese Joint Statement and the Sino-Japanese Peace and Friendship Treaty on a series of major issues. At the same time, such events as Japan's defense expenditure breaking through the ceiling of being equivalent to less than 1 percent of the country's gross national product have also caused concern and worries among nearby Asian countries. People have noticed that social forces in Japan are always trying to draw back the friendly relationship between China and Japan, which did not come easily, and are trying by every possible means to deny the historical fact that Japan did launch a war of aggression against China and even trying to completely reverse the iron-clad verdict of history. This tendency that goes against the historical trend of the times has prompted both Chinese and Japanese people to enhance their vigilance. The Japanese statesmen and businessmen of insight are not content with the current conditions in relations between China and Japan. They have called for "returning to the principles and the spirit of the Japanese-Chinese Joint Statement and the Japanese-Chinese Peace and Friendship Treaty in a serious manner." They also hold that as the Osaka Higher Court recognized the Taiwan authorities' ownership and management rights over Kokaryo, this means that "it recognizes another China or an independent Taiwan." "It is completely harmful and not at all beneficial to distort history, because



this will fundamentally harm friendly relations between Japan and China, and will also injure the pride of the Japanese people." We deeply believe that in the two countries' relations, in the long run, reason and sensibility will always have the upper hand. Things are very clear. In implementing a particular policy that involves the interests of China, any Japanese politician with brains, whether or not he admits that historically Japan owes China the heaviest debt, has to take into consideration the big, strong, and independent country towering on the other side of the sea that pursues a policy of peace and friendship and an all-round policy in diplomatic affairs and trade, a country whose international status has become increasingly more important. Although Japan gives the cold shoulder to China, China will never be at anyone's beck and call. Eventually, it will be Japan itself that suffers.

Today, when we are commemorating the 50th anniversary of the "7 July" Lugouqiao incident, we ardently hope that all Chinese soldiers and people, especially young people, will seriously review this section of revolutionary history which is full of tears and blood that lasted over a half a century, will pay close attention to the occurrences in Sino-Japanese relations, and will make joint efforts with the majority of the Japanese people to advance friendly relations between the two countries on the basis of the Sino-Japanese Joint Statement and the Sino-Japanese Peace and Friendship Treaty and to ensure the sustained and steady development of such relations. Comrade Deng Xiaoping recently said: "China will not change its policy of maintaining friendship with Japan generation after generation, but unpleasant things should be handled properly." "To be frank, China has no responsibility for the problems in Sino-Japanese relations in history. China places emphasis on future development, and does not want to see the appearance of any new problems. None of the problems were caused by China." He is completely correct in making these remarks, which represent the voice of the 1 billion Chinese people! The Chinese Government and the soldiers and civilians throughout the country deeply cherish Sino-Japanese friendship, and ardently hope that such friendship will develop continuously in the future. To realize this, no new problems should be created. As for the problems which remain unsolved now, it is necessary to settle them properly as soon as possible according to the principles of the Sino-Japanese Joint Statement and the Sino-Japanese Peace and Friendship Treaty. Only by continuously removing the obstacles in the way ahead can we ensure the healthy and smooth development of good-neighborly and friendly relations between China and Japan and bring happiness to the two peoples. As Confucius said: "In the beginning, when I observed other people, I listened to what they said and believed them. Today, when I observe other people, I listen to what they say and see what they do." We will see what actions the Japanese Government will take in the future.

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MY UNDERSTANDING OF THE PARTY'S POLICY OF ENCOURAGING SOME PEOPLE TO BECOME WELL-OFF BEFORE OTHERS

Beijing HONGQI [RED FLAG] in Chinese No 14, 16 Jul 87 pp 15-19

[Article by Wu Xiuquan [0124 0208 2938]; capitalized passages published in boldface]

[Text] It is a major policy, adopted by the party after the 3d Plenary Session of the 11th CPC Central Committee, to encourage some regions, enterprises, and people to become well-off before others by means of hard work and then to lead the people of the whole country on the road to common prosperity. Profound changes have taken place in China's social and economic life over the past 10 years. Social production has increased in an all-round way, the people's living standards have improved remarkably, and the national strength has been enhanced. Facts have proved that the policy of encouraging some people to become well-off before others is absolutely correct.

In the course of implementing this policy, however, we must be aware that people's starting points may vary and it may be difficult to reach unity of thinking in this regard. To a certain extent this affects the strength of the policy. Hence, it is necessary to seek further unity of thinking on the issue. Comrade Deng Xiaoping was the first person within the party to put forward the policy of encouraging some people to become well-off before others and to make comprehensive and profound expositions on the policy. To implement this policy, it is necessary to seriously study and comprehensively understand Comrade Deng Xiaoping's expositions. According to my understanding, Comrade Deng Xiaoping's thinking on the issue includes the following:

1. Resolutely oppose egalitarianism.

Egalitarianism, an ideological concept of small producers which can be traced back to ancient times, still exerts an influence among a number of cadres and the masses. Following liberation, particularly after 1958, we suffered a great deal from egalitarianism. The so-called "communist wind" and "tendency of egalitarianism and indiscriminate transfer of resources," criticism of material incentives and abolition of bonuses and piece-rate wages, repudiation of "more plots for private use, more free markets, more enterprises with sole responsibility for their own profit and loss, and

fixing output quotas on a household basis," and "chopping off the tail of capitalism" were all related to the issue. Egalitarianism is the ideological basis of "leftist" deviation. Its prevalence resulted in the shielding of Lin Biao and the "gang of four." In view of the trend of egalitarianism, Comrade Deng Xiaoping called for encouraging some people to become well-off before others to set things to rights.

Egalitarianism was able to prevail for a long time because it was easily regarded as communism. In fact, the two are totally unrelated. First, distribution according to need is practiced in communism on the premise of abundant material goods. We are still far from reaching this stage. Second, distribution according to need is not tantamount to egalitarian distribution. The needs of work and livelihood in the communist society will be rich and varied. How can we satisfy them with equal distribution of social products?

In the development of things, even is relative, while uneven is absolute. There is no exception for socialist society. Viewed from the ownership system, there are great differences in both quality and quantity of the means of production owned by the public sector, the collective sector, and the collective economic organizations. As production of the public sector and collective sector cannot develop simultaneously, ownership and distribution of social products cannot be shared equally. Even in the public sector, absolute egalitarianism is also impossible because the conditions of units differ from each other in thousands of ways. Viewed from the relations of distribution, the principle of distribution according to work is a negation of egalitarianism. How can we have egalitarianism when there are differences in people's ability to work and when the number of dependents supported by laborers varies?

Over the years, we relied on the following two methods in practicing egalitarianism: First, we did not allow the areas and units with favorable conditions to make the most of their strong points to develop the economy; and second, we "imposed uniformity" in distribution and shared food from the "big pot." This resulted in dampening the people's enthusiasm for socialist production. Our economy developed at a relatively slow pace for a long time and even stagnated. Following the 3d Plenary Session of the 11th CPC Central Committee, the gap between some regions, units, and individuals widened as we encouraged some people to become well-off before others. Although a wide gap in income is an unfair phenomenon in distribution which merits attention, we should not be worried so long as income is not illegal, is obtained through labor, and is allowed by state policies and laws. Comrade Deng Xiaoping pointed out: "If the standard of living of some people is raised first, this will inevitably be an impressive example to their neighbors, and people in other regions and units will want to learn from them. This will help the whole national economy to advance wave upon wave and help the people of all our nationalities to become prosperous in a comparatively short period." ("Selected Works of Deng Xiaoping," p 142) Both positive and negative experience teaches us that egalitarianism is not tantamount to Marxism.

## 2. Develop productive forces and oppose high consumption.

"The basic principle of Marxism is to develop productive forces." (Deng Xiaoping: "Build Socialism With Chinese Characteristics," revised and enlarged edition, p 103) Without production development, what can we use to improve the people's living standard? To develop production, it is necessary to properly handle the relation between accumulation and consumption. Instead of spending all of each year's national income in consumption, we should leave a sufficient sum for reproduction, so as to ensure the sustained and steady growth of production. High consumption refers to consumption without accumulation or with little accumulation and taking only immediate interests into account. With regard to high consumption, we are against mistakes of a policy nature concerning the question of accumulation and consumption. We are certainly not against purchases of consumer goods, including high-grade household electric appliances, with income earned through labor. This should be made clear.

High consumption will also not work in China. Social products are divided into two categories according to their use: means of production and means of consumption. The quantity of consumer goods is determined by the production level of the relevant period. If the consumption fund increases and people cannot purchase consumer goods with the money in their hands, it will only lead to price hikes and throw the market into confusion. Although this can stimulate somewhat the development of the consumer goods industry, it will aggravate the proportional imbalance of the economic structure under the condition of the weak link of China's basic industries, including energy, communications, and raw materials. I made some calculations: Of the GNP of the developed countries, the proportion going to individual consumption accounts for 60-70 percent. As our foundation is weak and we must enhance construction, the proportion going to consumption in our GNP is lower than that in the Western countries. If we make the proportion 50 percent and China's average annual per capita income reaches \$800 by the end of the century, the amount that can be used in consumption will only be \$400, which is equivalent to around 1,500 yuan (at the current exchange rate). The annual income of a family of four will only be around 6,000 yuan. Although the living standard at that time will be much better than at present, it will only have reached a comparatively well-off level. This takes into account the condition concerning the consumption level. It is thus clear that the policy of high consumption does not conform to China's national conditions.

Comrade Deng Xiaoping said: "We are opposed to those absurd, reactionary concepts of 'impoverished socialism,' 'transition in poverty to a higher stage,' and 'making revolution in poverty' touted by Lin Biao and the 'gang of four.' But we are also opposed to the idea of turning China into a so-called welfare state right now because that is impossible. We can only improve our standard of living gradually, on the basis of expanded production." ("Selected Works of Deng Xiaoping," pp 221-222) We should never forget this point while implementing the policy of encouraging some people to become well-off before others.

3. Adhere to the predominance of public ownership and become well-off through hard work.

Under given historical conditions, the capitalist system can also give impetus to the development of productive forces. However, society will have to pay a great cost. A handful of people possess large quantities of the means of production without doing any work, while the majority have no possessions at all and must work for their living; a small number of countries and regions amass enormous wealth, while large numbers of countries and regions live in poverty for a long time. Through long-term explorations, the Chinese people, under the leadership of the Communist Party, overthrew the exploitation system and established the socialist system based on public ownership. It was a correct choice. Through development over the decades, China's public sector has become relatively strong and solid. Now we are making use of foreign capital in a planned manner and have duly developed the individual and private sectors. They serve to complement the public sector. They cannot shake the dominant position of the public sector or change the nature of our socialist system. The purpose of reforming the operation and management system of the public sector is to perfect and develop the public ownership system and not to return to the private system. Comrade Deng Xiaoping has emphatically pointed out on many occasions that a fundamental principle of reform is adherence to the predominance of socialist public ownership. We must have confidence in this regard.

In the public sector, the laboring masses possess in common the means of production, implement distribution according to work, and can only become well-off through hard work. There are many specific forms of labor, including physical labor, mental labor, and labor in the production, circulation, and service fields. They are all necessary for developing the socialist economy. So long as you work hard, you can get more and become well-off before others. Becoming rich through hard work will not harm the interests of others or lead to polarization. In the individual sector attached to the public ownership economy, although some individuals have earned income through means other than by labor, viewed from the overall situation, they can only become well-off through labor. For example, the individuals engaged in long-distance transportation have transported farm produce and by-products from the remote mountain areas to towns and cities. By doing so, they have promoted the development of production in the mountain areas and also satisfied the needs of urban consumption. It is reasonable for them to get more income.

Phenomena involving a handful of individuals becoming well-off through illegal means rather than labor have prevailed in recent years. They include speculation, price hikes, deceiving and monopolizing the market, smuggling, embezzlement, and giving and accepting bribes. We must resolutely fight against these practices that undermine the socialist economy and encroach upon the interests of the state and the people. Otherwise, we may dampen the initiative of the broad masses for becoming well-off through labor. There are many reasons giving rise to these corrupt practices. They include corruption by the ideas of the exploiting class left over from history, negative influences from outside since reform and opening up, and loopholes

in management and regulations. Meanwhile, they are also related to recent weaknesses and laxity on the ideological and theoretical front, the failure to uphold the four cardinal principles with a clear-cut stand, and the spread of some erroneous views.

Here I would like to discuss the question of how to judge the role of currency. Currency, a special commodity which serves as an ordinary equivalent, can be used to exchange any commodity. This is applicable to both capitalist society and socialist society. In different societies, however, the social relations reflected in currency are different. Regarding production and circulation of socialist commodities, we should take the following into account: The law of value; that the purpose of socialist production is to satisfy the material and cultural needs of the people; and that the national economy should develop in a proportional way. Currency is only a means applied in socialist production and circulation. It is not our target. Influenced by the private ownership mentality, some people in society cannot correctly understand the essence of currency and its role in China's economic life. Instead of creating wealth for society with hard work, a handful of people have put money above everything else and tried by every means to seek profits. By doing so, they have encroached upon the interests of society and others and have aroused dissatisfaction among the broad masses. The masses have bitterly satirized the practices of these people as "putting money above everything else."

It is a pity that our theoretical workers have failed to lead the masses in clearly understanding the common points and differences in the relation between socialist currency and capitalist currency and have failed to make a study of how the masses recognize practices of "putting money above everything else." Instead, they proceeded from one-sided abstract theories and regarded them as correct slogans. Whatever the subjective desires of these comrades may be, their practice has resulted in ideological confusion among the masses and has dampened the enthusiasm of the people for becoming well-off through labor.

In view of this lesson, we should publicize the idea of becoming well-off through labor and help cadres and the masses extricate themselves from the trammels of "money is everything," "money makes the mare go," and other outmoded ideas, and firmly acquire the new idea of "it is glorious to become rich through labor and it is shameful to reap without sowing."

#### 4. Communists should work for the well-being of the majority.

Comrade Deng Xiaoping said: "Common prosperity rather than polarization is the difference between socialism and capitalism." (Deng Xiaoping: "Build Socialism With Chinese Characteristics," revised and enlarged edition, p 109) The purpose of encouraging some people to become well-off through labor before others is to help all the people take the road to common prosperity.

Although the living standard of the Chinese people has improved remarkably over the decade, the extent of the improvement varies. The economically developed regions, where the people are living in affluence, are concentrated

in limited areas including the southeast coastal areas and the large cities and their surrounding suburbs. However, the economy of the vast central and western regions has developed at a relatively slow pace. The masses of the southwest and northwest border regions, the minority nationality areas, and the old liberated areas are particularly in straitened circumstances. According to relevant departments, there are 18 poverty-stricken areas in the country, with a population of 70 to 80 million, where the average annual per capita income is lower than 120 yuan. Viewed from the conditions of peasant households, in 1985, those with an annual average per capita net income of over 500 yuan accounted for 22.3 percent of the total. The average per capita net income of 12.3 percent of the households was under 200 yuan. In 1986, there were still 11.3 percent of peasant households earning an annual average per capita of under 200 yuan. Of the peasant households which earned an annual average per capita of over 500 yuan, the number of those qualifying as well-off was limited. According to the surveys conducted by some localities, 10,000-yuan households accounted for only a few per thousand. Generally speaking, the level of affluence of the Chinese people is not yet high. There are still some people who have not yet extricated themselves from poverty.

The "Communist Manifesto" pointed out: "All previous historical movements were movements of minorities, or in the interest of minorities. The proletarian movement is the self-conscious, independent movement of the immense majority, in the interest of the immense majority." Serving the majority is the hallmark distinguishing the proletariat from other classes and political parties. Regarding the CPC, which has assumed power, it is its unshirkable historical duty to lead the people onto the road to common prosperity. There are the following two tendencies in our recent work: First, influenced by "leftist" ideas, some people regard becoming rich through labor as polarization. They try by every means to attack and suppress the trend. Consequently, the masses are afraid to become rich through hard work. Second, some people focus their attention on a small number of rich households and areas, artificially set up an "example," and lump together the big households, irrespective of the majority of people and regions. Both tendencies are wrong and are disadvantageous to the implementation of the party's policy on encouraging the people to become prosperous. On the one hand, we should continue to encourage and support some people in becoming well-off before others, and on the other hand, we should make utmost efforts to help the regions and people who have not yet extricated themselves from poverty to get rid of poverty and take the road to prosperity.

IT IS THE DUTY OF THE RICH AREAS TO HELP THE POVERTY-STRICKEN AREAS. Over the years, the central and western poverty-stricken areas have provided the coastal developed areas with large amounts of cheap primary goods, including farm and local produce, coal, timber, and mineral resources, which has contributed a lot to the economic development of these areas. The failure to exchange goods at equal value was one of the historical reasons giving rise to the uneven development of the two regions. Although the prices of primary goods have increased somewhat through recent reforms, they are still relatively low viewed from the overall situation. In view of the capacity of

the national economy as a whole, it will probably be impossible to drastically change the prices of primary goods for a considerably long period in the future. The value created by the underdeveloped regions will be partly transferred to the developed regions through exchange at unequal value. Moreover, the developed regions are well-off because the state has invested huge amounts of funds and built large numbers of key construction projects there over the years. For example, the value of the fixed assets of state-owned enterprises in 1985 was 737.05 billion yuan. Of this sum, the value of the state-owned independent accounting enterprises of 324 cities was 419.88 billion yuan, accounting for 57 percent. Of this 419.88 billion yuan, the value of the fixed assets of Shanghai and Tianjin was 46.096 billion yuan, accounting for 11 percent. The rapid economic development of the developed regions is related to the hard work of the cadres and masses there. Nonetheless, it is also inseparable from support in various respects. Naturally, they should never forget the state and the underdeveloped regions and should do their best to help the underdeveloped regions. When the economy of the underdeveloped regions has developed, they will be able to provide the developed regions with more primary goods, open up an extensive market for the goods of the developed regions, and help accelerate the development of the developed regions and the nation as a whole.

THERE ARE TWO WAYS FOR THE DEVELOPED REGIONS TO HELP THE UNDERDEVELOPED REGIONS. First, create more profits and taxes and make more contributions to the state. Second, develop lateral ties, strengthen cooperation and exchanges in funds, technology, and qualified personnel, and offer practical assistance to the underdeveloped regions. In recent years, all localities have gained rich experience in this regard. Some have cooperated in building raw materials bases or processing machine parts, some have carried out joint investment in building new enterprises, some have carried out compensation trade, some have coordinated with each other in materials, some have lent funds to each other, and some have provided consultative services. The experience in these fields should be summed up and constantly perfected. The contradictions with the existing system encountered in lateral ties between regions should be solved by deepening reform.

STATE ORGANS HAVE AN UNSHIRKABLE DUTY TO PUT AN END TO THE BACKWARDNESS OF THE POVERTY-STRICKEN AREAS. In recent years, a number of state organs have taken action and the situation of the work to support the poverty-stricken areas is excellent. However, some units have not attached due importance to the work in this regard. There are also a number of problems in specific tasks. For example, how should we make the most of the low-interest loans and huge amounts of state funds to support the poor peasants, how should we serve as a go-between and promote lateral ties between regions, how should we practice the "spark plan" in the underdeveloped areas and support the poor peasants with science and technology, and how should we strengthen the building of leading bodies, train cadres, and upgrade the education level of the underdeveloped areas. A great deal of work awaits doing in cooperation between state organs and local governments. In the work to support the underdeveloped areas, we must attach great importance to the construction of the mountain base areas. During the bitter war years, the people of the old liberated areas nurtured our party, the people's army,



and the people's regime with their sweat and blood. More than 30 years have elapsed, and yet the living standard of the old liberated areas has not shown much improvement. After touring these areas, a number of veteran comrades have felt uneasy even when eating and sleeping. This merits attention. Owing to the backward conditions, it will be impossible for these areas to become well-off within a short period. However, it is within our capacity to help these areas solve the problem of feeding and clothing the people within a period of 3 to 5 years, or a bit longer.

As economic development in the developed areas may also be uneven, there are some poor counties, townships, and villages. Therefore, THE QUESTION OF HELPING THE POOR ALSO EXISTS WITHIN THE DEVELOPED AREAS. Leading comrades at all levels there should attach great importance to this work and place it on the agenda. Generally speaking, transport and communications are convenient, administrative relations are direct, economic relations are close, and each side is familiar with the others within a region. Consequently, compared with the exchanges carried out with other regions, the developed counties, townships, and villages will find it much easier to help those within the region that are still lagging behind. When implementing the responsibility system in supporting poor peasants, some localities have sent capable cadres to contract out the work in the counties, townships, and villages respectively, to work out plans to help the peasants extricate themselves from poverty on the basis of meticulous investigations, and to strive to achieve the anticipated results within a specified period. When adopting this method, it will not be necessary to spread the work in an all-round way. The breakthroughs made by concentrating forces may produce better results. If the work is spread and the cadres are assigned to various localities, it will be difficult to attain better results. What is more, the masses and cadres will realize that the work has been done perfunctorily and will thus lose their confidence.

HOW SHOULD THE VILLAGE COOPERATIVE ECONOMIC ORGANIZATIONS TAKE THE ROAD TO COMMON PROSPERITY? On the one hand, it is necessary to encourage everyone to display his prowess in becoming well-off through labor and to vigorously develop diverse economic forms. We should encourage the people who have become well-off first to use the methods of passing on their technical skills, doing business in partnership, and lending funds to help those who have many difficulties and no social connections. Meanwhile, we should also encourage poor households to rely on themselves and not merely depend on external assistance. The rich households will collapse if everyone wants to benefit from them. Consequently, it will also be difficult for the poor households to extricate themselves from poverty. On the other hand, we should be aware that the peasants in straitened circumstances in China rely mainly on the state and the collective. For this reason, it is necessary to expand the collective economy. Facts have proved that in places where the foundation of the cooperative economy is solid, the peasants are universally rich and the livelihood of the households enjoying five guarantees; families of revolutionary martyrs; widows and widowers; and the old, weak, sick, and disabled is secure. In places where the foundation of the collective economy is weak, there are usually large numbers of households living in straitened circumstances, and there are many difficulties in putting an end to their backwardness. Contracts are a good method for developing the

cooperative economy. Ownership belongs to the public, whether a small number of individuals or all laborers are involved in the contract. By linking income with labor and giving more pay for more work, it will be advantageous to arousing the initiative of the managers and laborers. The key here lies in management. With proper management, enterprises and the collective can increase accumulation and the laborers can earn more. It will certainly not lead to polarization. The results of contracts have not been ideal in some localities. This is due to failure in management work rather than the contract system. Some people hold that after separating government administration from enterprise management, it will be unnecessary to be concerned about enterprise activities. This is a misunderstanding. As a matter of fact, to make the conditions more convenient for the contractors to properly exercise management, it is necessary to strengthen political and ideological work and to enhance supervision from top to bottom and from bottom to top.

I have expressed my understanding of the party's policy of encouraging some people to become well-off before others. The contents are organically combined. In specific implementation or publicity, we should lay particular stress accordingly in line with local conditions. Moreover, we should seek unity of thinking in this regard. The practices that give consideration only to one aspect, regardless of others, will be disadvantageous to the implementation of the party's policy.

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## THE BASIC TRAIN OF THOUGHT CONCERNING CHINA'S FINANCIAL STRUCTURAL REFORM

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[Article by Liu Hongru [0491 7703 0320]; capitalized passages published in boldface]

[Text] Finance is a product of the commodity economy and also a basic means for the management of the commodity economy. With the development of the planned commodity economy, it is imperative to carry out an overall financial structural reform in our country. I would like to air my views on this issue.

### The Basic Train of Thought and New Framework for Financial Structural Reform

The formation of the basic train of thought and the design for the new framework of our country's financial structural reform have been gradually and profoundly developed in the practice of reform over the past 8 years.

The guiding thinking for the financial structural reform was put forward by Comrade Deng Xiaoping in 1979. He pointed out: Banks should grasp economy. But now they only make out bills and play the role of accounting. They have not yet performed the function of banks. Efforts must be made to turn banks into a lever for economic development and technical reform, so that they truly become banks. He showed clearly the direction for the reform of banks in light of the defects of our previous banking system.

We started our financial reform in 1979 in accordance with Comrade Deng Xiaoping's ideas. First of all, we expanded bank credits and changed the previous method of granting credits in circulating funds to the production and circulating field only. Bank credits have now been extended to the field of fixed assets. Various kinds of credit operations have now been carried out. In the meantime, to meet the demand of the development of planned commodity economy, we set up several financial institutions such as specialized banks, trust and investment companies, and so on to change the situation that a bank "monopolizes everything." With the full development of urban reform with emphasis on invigorating enterprises, further enlivening macroscopic economy, and further expansion of the commodity market, how to strengthen macroscopic management has become a striking problem of reform. Banks as a general pivot of the flow of social funds have their own special functions in this regard. However, at that time, our banks were facing a

situation of "a host of dragons without a head," one vying with another to grant credits. This was not beneficial to macroscopic management. Therefore, the task of separating the central bank, which is mainly responsible for the issuance of banknotes, implementation of monetary and financial policy, and leading and administering financial affairs, from specialized banks, which are responsible for handling the deposit and credit matters of enterprises and individuals, and of the implementation of the two-grade bank system was put on the agenda. This was the start of how the banks truly marched toward the stage of macroscopic regulation.

Making use of the banks to regulate the operation of the entire economy is an important breakthrough in our country's banking theories and practice. In the actual process of regulating the economy, it was unavoidable that problems of this or that kind would occur. The fact that our bank credits were out of control during the fourth quarter of 1984 showed that we still lacked full experience in making use of banks to regulate the economy. This also showed that we had not paid due attention to the role of the central bank in macroscopic management. In view of the excessive demand that began in 1984, the state used the lever of credits as a main measure to strengthen the regulating and control mechanisms of the central bank, to open up financial market, to regulate the demand of the entire society in terms of magnitude of value, and to guide economic activities. Better results were achieved despite reforms in wages and prices that were carried out successively in that year. Both positive and negative experiences have told us that with the development of our planned commodity economy, the role of finance in economic management has been increasingly strengthened. Monetary policy and financial regulation have become one of the basic measures of the state for exercising control over total demand of the society, for affecting various enterprises and millions of households, and for governing economic activities.

In his "Report on the Seventh 5-Year Plan," Premier Zhao Ziyang clearly pointed out: "We should particularly strengthen the important functions of banks in macroscopic economic management. Through financial structural reform, we should gradually establish a forceful and flexible financial control and regulation system and give full play to the role of financial institutions in raising and coordinating funds, directing and flow of capital, enhancing the efficiency of making use of capital, and regulating social demand." He also stressed that the Chinese People's Bank, as a central bank which is one of the most important regulating organs, should enhance its status and independent nature. In his "Report on Government Work" delivered at the fifth meeting of the Sixth NPC, Premier Zhao urged again that financial reform be properly speeded up. He emphasized: "Under certain conditions, we should make financial institutions such as banks, insurance companies, and others under provincial level enterprises"; "proper competition among various kinds of financial organizations is needed." He has further pointed out the direction for the financial structural reform. At present, we have basically a clearer train of thought for the financial structural reform, and a new framework for the financial structural system has also been developed. The main aspects of this frame are:

--We should establish a multilevel, effective, and flexible macroscopic financial regulating and control system with emphasis on indirect regulation and control in order to promote the work of effectively raising and using social funds, to maintain the basic balance between total social supply and total social demand and basic monetary stability, to ensure coordinated economic growth, and to rationalize the economic structure.

--We should establish a many-channeled and multi-formed credit system characterized by the concentration of financial tools and coordination of capital with emphasis on bank credit in order to promote the lateral coordination and flow of capital so that city-based financial centers of different scales and at different levels and financial market suitable to our national conditions will be set up.

--We should establish a socialist financial system, led by the central bank, and mainly based on the state banks, that coexists and coordinates with insurance institutions and various kinds of other financial institutions. The functions of central banks should be constantly strengthened. Various kinds of banks and financial institutions should be gradually turned into enterprises. This will ensure that financial policy of the state can be implemented smoothly and that various kinds of financial enterprises can independently raise funds and make use of capital. In such a way, power, responsibility, risk, and interests will be gradually unified. In proper competition, the business driving power of enterprises and their vigor and pressure exerted on them from outside will be intensified.

--We should establish a financial management system based on modern science and technology. The quality of our cadre contingent should be markedly enhanced. We should train a great number of senior financial administrative personnel and make use of modern technology such as computers and so on in order to ensure that we can carry out scientific management, provide useful information, make things convenient for the customers, obtain good economic results, and provide excellent financial service for economic development.

The establishment and perfection of the four "systems" mentioned above should be gradually realized in the process of all-round reform of our country's old financial system. Besides procuring more modern facilities and training more financial administrative personnel, our reform should be based on the following three focal points: developing the financial market, making specialized banks enterprises, and establishing and perfecting the financial macroscopic regulation and control system with emphasis on indirect regulation and control. Establishment of the financial market is a key link in the reform of the entire financial system. This is because under the administrative system of material objects, capital is determined by materials, currency and value are only tools for settling accounts, and banks do not have the function of macroscopic regulation. With the reform in the economic administrative system, the situation is not the same. The flow of commodity and materials is not mainly determined by direct allocation based on mandatory planning. It is determined by market exchange under planned guidance. There occurs an issue of monetary media. Currency as a tool for commodity circulation should start off before the others. Therefore, establishment of the

financial market is a precondition for the formation of the market system. Furthermore, the financial market is a condition for financial macroscopic regulation and control and has made the macroscopic regulation and control of finance flexible. The defect in our macroscopic control is: Once control is exercised, it is extremely rigid; once control is lifted, everything is thrown into confusion. Establishment of the financial market has opened up new channels for enterprises, government, and financial institutions for raising funds. When macroscopic retrenchment is exercised, everything will not be brought to a sudden halt. When the total amount is controlled, structural readjustment will not be affected. All this means providing a way out for investors and operators so that they can avoid facing dilemmas, and macroscopic control will become flexible. True, it is important to establish the financial market, but it must be based on the invigoration of financial enterprises. It should particularly be based on making specialized banks of the state enterprises. This is because if we fail to run financial institutions as real enterprises, the relations between central banks and specialized banks, between banks and enterprises, and between the higher and lower levels in the specialized banks will not be straightened out. The supply system of funds and the situation of "everybody eating from the same big pot" will not be completely changed. On the one hand, specialized banks and their branches and subordinate departments at the grass-roots level will rely completely on the state and ask for money from the higher authorities. They will not have the desire to develop lateral economic links to raise funds. Under the conditions that the achievements in business operation of banks are not linked with their own benefits, banks lack the inherent driving force and desire to provide loans or use new tools to coordinate funds. Banks are the main part of our country's financial market. If we fail to start the reform in the inner operation of specialized banks, it will be impossible to fully develop the financial market. If we have done well the two things of developing the financial market and making specialized banks enterprises, this means we have fulfilled the task of microscopic enlivening. However, microscopic enlivening should conform with the strengthening and perfecting of the macroscopic regulation and control system of finance. If inflation is caused because of microscopic enlivening, this means we have not yet fulfilled the task of reform. The relations between control and flexibility are the relations between mutual conditioning and mutual promoting. Whenever the reform is deepened, the relations between mutual conditioning and mutual promoting will be unified on a new basis. On the one hand, microscopic enlivening should be subordinated to macroscopic control. On the other hand, losing no time to turn direct control in the macroscopic management gradually to indirect control is a prerequisite for the establishment of the financial market and making specialized banks enterprises. Only by systematically promoting reforms in these two aspects can a new financial system be established.

#### Main Measures for Deepening Reform in the Financial System

The basic train of thought for the reform in financial system and the framework for the new system based on such basic train of thought need specific reform measures to ensure the success of the financial reform. Proceeding

from the practical reality in our country, to deepen the reform in financial system, and shorten the process of replacing the old system with the new one, the following main measures should be taken:

1. PERFECTING AND STRENGTHENING THE MACROSCOPIC READJUSTMENT AND CONTROL SYSTEM AND FUNCTIONS OF THE CENTRAL BANK. The credit system is a product of the development of the commodity economy. Under the conditions of the commodity economy, all currencies in circulation (including currencies in bank deposits) are supplied through the credit process. It is because the monetary income and expenditures of enterprises and individuals will not increase total purchasing power of currencies in circulation. It is only when enterprises suffer from financial deficits, and when they make an overdraft from the central bank, or borrow money to make up the deficits can money supply be expanded through credit process. Therefore, to perfect and strengthen regulation and control system, and the functions of central bank, and to make checks at the general sluice gate of credit is a kernel for all financial macroscopic management. With regard to macroscopic management, there are several most important problems which should be handled well.

1) Total money supply of the whole society should not go beyond the capability of the society. The basic function of currency in circulation is to realize the value of media commodity. When the circulation speed has been set, the money supply is determined by aggregate prices of commodities. The so-called capability of the society means within a certain period of time (usually based on annual calculation) the value of commodities supplied by the society (reflected in total prices), and the amount of money needed within the limits of price increase and normal circulation speed. The demand of such principle in terms of macroscopic balance is that the growth of accumulative funds should not exceed the growth of the production of the means of production, and that the growth of consumption funds should not exceed that of the production of the means of subsistence. A proper ratio between them should be maintained. Judging from the situation over the past 3 years, we know that the growth of both accumulation and consumption far exceeds the growth of national income. To solve the problem of demand which is on the high side is a common task which should be carried out by various economic departments.

2) The comparative stability of monetary policy should be maintained. A sharp increase or excessive drop in monetary supply will cause tremendous economic shock. Monetary supply is subordinated to the monetary policy of the state within a period of time. The ultimate aim of a monetary policy is to stabilize commodity prices, promote the coordinated growth of the economy and ensure balance between international payments and receipts. The central banks attain the objective mentioned above mainly through monetary readjustment. Therefore, fixing a moderate growth of money supply is always a forceful weapon for exercising control over inflation. The condition for ensuring a relatively stable monetary policy is that the growth rate of money supply is determined by rational economic growth rate, the planned growth rate of the commodity price (which is acceptable), and the change in the speed of monetary circulation. In accordance with the margin of growth of money supply, we may determine the sources of funds and the

general scale of credit. We should use the sources of funds to restrict the demand of funds, but not the other way round. With regard to the sequence for the use of funds, priority should be given to the needs of circulating funds. After that we may determine the scale of credits in fixed assets to ensure that the long-term and short-term sources of funds conform with their use. What should be pointed out is that the amount of money supply is a target of growth rate. With economic growth and flexible readjustment, we can, of course, ensure rational growth of the economy rather than its hyper-growth. The factor of commodity prices is included in the growth rate of money supply to an extent acceptable to the society. In the process of commercialization and monetization, monetary circulation has slowed down. This is a fact, but not a law. It cannot be always included in the growth rate of money supply.

3) Regulation means should be applied in a flexible way. The socialist economy is a planned commodity economy. Planning is still a basic means for macroscopic balance. However, it should reflect the demand of the law of value. Market should be guided through direct and indirect planning. Enterprises will be gradually influenced by market. Therefore, after setting macroscopic economic targets, we should mainly make use of economic means to turn direct regulation and control into indirect regulation and control. The indirect regulation and control of the central bank means that through regulating the scale of basic currency directly controlled by the central bank, the total amount of money supply and loans is regulated. The so-called basic currency mainly consists of cash in circulation and deposit reserves turned over by specialized banks. The capability of a specialized bank for granting credits is not limitless. It is determined by the amount of loans provided by the central bank, and conditioned by the ratio of bank deposit reserves, and the ratio of deposits being turned into cash (the proportion of deposits converted into cash). As long as the central bank can appropriately regulate the amount of loans for specialized banks, money supply of the society can be indirectly regulated. Further reform which should be carried out in the future is: The central bank will gradually stop its de facto supply of funds to specialized banks. The specialized banks will rely on their own efforts to organize deposits, to enter the market, to raise funds by issuing bonds and debentures, and to maintain their own balance. When they have more bank deposits, they may grant more credits. Strict control should be exercised over basic currency mastered by the central bank in order to maintain a high degree of centralization and unity. In accordance with market conditions, the commodity price, bank interests and the monetary supply situation, the central bank should coordinate the funds of various financial organizations monthly or quarterly so that macroscopic economic targets can be attained. The central bank mainly employs an economic method to coordinate funds, flexibly make use of the amount of loans provided by the central bank, loan interests, rediscount amount and rediscount rate to regulate the total amount of credits and credit structure. With the development of the financial market, we should relevantly expand the amount of funds distributed through the market so that the flow of capital will be in line with the highly effective use of funds.



4) Renminbi and foreign exchange should be integrated to carry out macroscopic management. With the implementation of the policy of opening up to the outside world, and gradual expansion of economic intercourse with foreign countries, the changes in international market, international price and international exchange rates have exerted increasingly greater influence over our country's foreign exchange receipt and disbursement. The situation of our foreign exchange receipt and disbursement has an important effect on our country's economic development, finance, investment, the commodity price, and so on. First of all, it has greater influence over the amount of credits at home, the amount of money supply, and monetary stability. We use renminbi to purchase export commodities, and also convert renminbi into foreign exchange. To make use of foreign capital, renminbi is needed as a support. Reserves in foreign exchange will guarantee that we are able to pay in foreign trade, and that we are able to import goods from foreign countries to support production, and that we are able to withdraw surplus paper money. Therefore, one of the important objectives of the monetary policy of the central bank is to maintain a balance of international payments. It should pay attention to both renminbi and foreign exchange. An important content for the reform in financial system is to reform the administrative system of foreign exchange and foreign debts. Our main efforts should be exerted to improve the plan for balance of international payments, and to ensure a systematic balance between international payments and the funds in renminbi. We should strengthen unified management of foreign exchange, improve the system for the retention of foreign exchange, improve the policy for exchange rate, and implement in a guided way the administrative system of floating exchange rate. We should stabilize reserves in foreign exchange, and establish a central bank's credit funds in foreign exchange. We should strengthen the administration of foreign debts, define their appropriate amount, time limit, interest rates and the kind of the currency, and improve the supervisory system. We should study the way to make use of the limited foreign exchange market, and utilize foreign exchange in an effective and flexible way. In a word, we should learn the way to make use of foreign exchange and renminbi to control money supply and regulate economy.

2. WE SHOULD OPEN UP, ESTABLISH AND DEVELOP THE MONETARY MARKET. The banks collect surplus funds of residents, enterprises and public departments of the society. These funds are invested in reproduction, or recirculate. This kind of method for coordinating funds with intermediaries is called indirect coordination of funds. This is a main channel for coordinating funds in our country. A direct way for coordinating funds means that investors and operators directly make use of valuable securities to carry out their activities to coordinate funds. Such a method is only secondary in our country. Whatever methods we employ, we should make use of the market mechanism to promote rational distribution of funds.

To develop the financial market, at present our emphasis should be placed on enlivening short-term funds. Judging from the present situation of circulating funds, we find out the excessive money supply exists side by side with the strain on money supply. The problem does not completely lie in the total amount of money supply. The key to the problem lies in the ineffectiveness of the structural regulation, low economic benefits, and the

impediment to lateral flow. Efforts must be exerted to make use of the market to enliven funds. Besides, investment is a problem to which people at the higher and lower levels pay attention. Accumulation of funds can neither be carried out according to proportion nor monopolized by banks. A way should be found in the market. The short-term market of funds includes the loan market, bill market and short-term bond market. The loan market is a place where various financial institutions help supply each other's needs in funds to solve the problem of the shortage in circulation funds. The fact that funds can flow unimpeded among various financial institutions is beneficial to the formation of the criss-cross pattern of the distribution of funds. What is more important is that by making use of the space and time intermission of funds, we can speed up their circulation and expand their relevant amount without increasing the total of money supply. In so doing, we will be able to satisfy urgent needs and enhance economic results. Therefore, on the basis of providing loans in a city, transsectional, trans-provincial and transregional activities of coordinating funds can be promoted. A national multilayered network for coordinating funds throughout the country with emphasis on towns and cities can be formed. The bill market mainly deals with the use and circulation of commercial bills, involving not only financial institutions, but also enterprises. Without bills, credits cannot be regarded as full credits, whether they are commercial credits or bank credits. Under such circumstances, credit inflation will be caused, because the flow of capital can free itself from the flow of materials. Therefore, the flow of funds between financial institutions and enterprises on the one hand, and between enterprises on the other should be based on bills. This is a basic work in financial reform. Only by doing this work well can we replace loans on credit with the acceptance of bills, discount and rediscount. Through the circulation and transfer of bills, we are thus able to implement a new system of letting clients choose banks, and vice versa. It is obvious that popularization of commercial bills and the formation of circulation market not only solve the problem of promoting commercial credit and default of payment among enterprises, but also greatly reform the credit system so that the motion of credit funds is closely connected with sales activities. This has opened up a new way to get rid of the monopolized fund supply system for enterprises based on "trade and service." The short-term bond market refers to the issuance and transfer of bonds within 1 year. These bonds include financial bonds, a large amount of deposits, and bonds issued by enterprises. They will help enterprises solve the problem of short-term shortage of funds.

In our country, the shortage of funds for construction is a problem which has existed for a long time. Under the present situation of the great increase in funds not covered by budget and the lack of funds raised by enterprises themselves for capital construction, developing a long-term capital market is an effective way for exercising control over the scale of investment, regulating investment structure, and enhancing the benefits of investment. Under the present conditions, the issuance of shares can only be carried out on a trial basis in joint enterprises, and a small number of collective enterprises endorsed by the higher authorities. In this connection, a main channel is to develop the bond market which deals with state treasury bonds, bonds for key construction projects, financial bonds, enterprise bonds, and

so on. In the long run, the development of a long-term capital market should be integrated with the reform in investment system. The government will make direct investment in key construction projects of the state, basic facilities, public utilities, and so on. But the investment in general projects should be gradually shifted to enterprises and financial institutions. Establishing a relevant market is a way for doing so. Through issuing bonds aimed at raising and coordinating funds, enterprises rely on their own efforts to make appraisal, to formulate policy decision, to take their own risks, and to link the funds they have raised with their own construction projects. This will not only lighten the burden of the state, but also regulate the structure of investment by making use of market mechanisms and raising funds and production costs. This can ensure that funds will be diverted to construction projects with better results. With the increase in financial assets, circulation market can be opened up, so that investors and operators may have a wider choice to further enliven long-term funds. In the meantime, we should develop insurance undertaking, especially savings items based on contract such as life insurance, pension insurance, and so on in order to ensure long-term and stable sources of funds. Of course, after the "commercialization" of funds, management work should be strengthened. The state should exercise control over total investment amount, and the issuance of valuable securities. Efforts must be made to establish institutions responsible for the assessment of the credit of enterprises, and for the management and operation of capital market.

3. WE SHOULD GRADUALLY DEEPEN THE REFORM OF SPECIALIZED BANKS IN ORDER TO MAKE THEM ENTERPRISES. At present, an acute problem which specialized banks of the state are facing is that they do not assume responsibility for their profits or losses, that the results of their business operations are not linked with their own benefits, and that granting loans is not connected with risk and responsibility. All this has directly affected the work of financial media of effectively mobilizing funds and rationally distributing funds to enterprises and construction projects which will produce great benefits and interests. Therefore, the reform of specialized banks with an aim of making them enterprises is an important issue which the entire financial reform is facing.

Our efforts to make specialized banks enterprises should be centered on enlivening banks in cities and towns (agricultural banks are branches at county level). It is because the key cities are closely connected with economic centers. They are collecting and distributing centers of the commodity, materials and funds, and the support of economic zones. Enlivening banks in cities and towns is a matter of profound significance for establishing a network for coordinating and accommodating funds with emphasis on towns and cities, for giving play to the role of towns and cities as financial hubs, for lowering barriers between higher and lower levels, and for setting up business operational zones. The basic requirement of making specialized banks enterprises is an integration between power, responsibility and interests. They should be truly turned into economic entities which operate independently, assume sole responsibility for their profits and losses, take their own risk, and rely on their own efforts to maintain the balance of their capital. They should have the

capability to meet a contingency, and mechanisms for self-regulation. To attain such objectives, we should a) check and ratify the credit funds for basic operational units of the specialized banks, give them a certain sum of "capital," and let them operate independently so that the intercourse between financial enterprises at the higher or lower levels, and in different regions will be based on relations between lending and borrowing. b) While allowing state-operated enterprises expand their power, it is necessary to provide financial enterprises with power for operation, granting loans, floating interest rates, administering profits retained after paying tax, appointing and removing cadres, giving awards and meting out punishment, and setting up internal organs. c) Power and responsibility on the one hand, and risk and benefits on the other cannot be separated from each other. Efforts must be made to establish and improve the economic responsibility system, and the system of taking risk because of granting loans. We should use risk and the principle of profits to restrain the action of financial enterprises to provide loans. In so doing, while granting loans, they will consider the credit, profits and the paying ability of the enterprises concerned so that the safety, completeness and benefits of the loans granted will be guaranteed. d) With regard to financial management system, the situation of verifying and appropriating funds for expenses by the headquarters to branches at all levels should be changed, because such situation actually means unified state control over income and expenditure. e) Socialist financial enterprises should not take making profits as their own sole aim of business. However, under the condition of enlivening finance and economy, and unifying microscopic results with social benefit, they should be allowed to seek the best profits. Therefore, with the progress of the work of making banks enterprises, we should gradually establish a system for assessing targets with emphasis on profits. Otherwise, power and responsibility on the one hand, and risks and profits on the other will not be truly put on a solid footing. f) We should develop various kinds of new financial organs whose business is closely linked. In recent years, we have developed a great number of urban and rural financial organizations and nonbanking financial organs which assume responsibility for their own profits and losses. We have also reorganized Jiaotong Bank which deals with systematic credit operations. These financial organs have begun competing with each other. Besides, specialized banks of the state should gradually expand their business links, carry out appropriate competition, overcome the situation of monopolization, and put more pressure on their business operations. g) Financial enterprises should also conduct experiment on separating ownership from power for operations. The fact that savings banks in some areas pursue the contract system is a good start. The scope of experiment should be expanded.

At present, making specialized banks enterprises has become a problem which affects the general situation of financial reform. If this problem is not solved, it is difficult to enhance the benefit of funds, to readjust the structure of funds, and to implement the credit policy for treating differently and supporting enterprises on a selective basis. If the problem is not solved, there will be no foundation for macroscopic regulation and control. Therefore, to profoundly carry out the reform aimed at making specialized banks enterprises, it is absolutely necessary and urgent to

establish a highly effective financial system so that microscopic financial operating mechanism will be improved and macroscopic regulation and control system will be perfected.

#### Straightening Out External Relations Governing Financial Structural Reform

It is difficult to carry out financial structural reform, because it involves a wide range of disciplines, and exceeds the scope of the financial field. Financial structural reform should be systematically connected with the economic structural reform as a whole, and properly handle its external relations with various quarters.

RELATIONS BETWEEN FINANCIAL STRUCTURAL REFORM AND THE PLANNING SYSTEM. Under the management system of direct control, the fixing and fulfillment of macroscopic economic targets are based on planning means, and the distribution of mandatory targets. The development of the planned commodity economy is changing such management system based on direct control. The trend of the reform is that indirect regulation and control will be mainly relied upon. The state has controlled parts of the funds and materials. It only provides mandatory planning for products which are closely connected with the national economy and the people's livelihood. This will be beneficial to the readjustment of production setup and exercising control over market. Under such circumstances, we should pay attention to giving full play to the role of financial departments in macroscopic readjustment and control. We should correct the defects in the distribution of credit funds of "asking the planning commission to order the dishes and the bank to provide the money," and the shortcomings of the separation between policy decision and responsibility. Efforts must be made to let the central bank implement its monetary policy more independently, whereas specialized banks should be allowed to have greater decisionmaking power to make use of their funds. Therefore, straightening out relations between financial structural reform and planning is an important condition for deepening financial structural reform. As far as the orientation of reform is concerned, planning should govern total funds and investment, macroscopic balance and major proportionate relationships. The central bank should have the decisionmaking power for fixing the growth rate of money supply, and for readjusting loans within the direction and scope covered by state planning. Under the guidance of state planning, financial enterprises should have decisionmaking power for using funds, for selecting projects assigned by the state, and for making policy.

RELATIONS BETWEEN FINANCIAL STRUCTURAL REFORM AND FINANCIAL SYSTEM. Their relations are reflected in the following two aspects: 1) coordinated relations, namely the readjustment of economy through coordination between monetary policy and financial policy; 2) restrictive relations with an aim of curbing inflation and maintaining sustained and stable development of the economy. At present, the problem existing in our financial system is that although incomes have been dispersed, too many expenses are undertaken by the state, which is beyond the capability of the state. Reform should be carried out in this regard so that it keeps abreast of the new situation. Once financial deficits occur, state treasury bonds should be issued to enterprises, units and individuals to ensure a financial balance. The central

bank will not buy them. Such method will not change the total monetary amount in circulation. Under the conditions that more funds for economic construction are gradually provided by financial departments, if we continue to follow the path of financial departments directly borrowing money from banks and making overdrafts, this will weaken the independence of central bank for exercising control over the money supply. This will inevitably cause the expansion of total demand. Unlike financial income and expenses which are clear at a glance, financial activities are concealed. Since the demurrage of inflation is long, it is easy to make up financial deficits and cover up contradiction by relying on credits. But there is no end of trouble for the future. Therefore, the relations between banks and financial departments should be conditioned through legal forms.

Financial departments are not allowed to make an overdraft, or borrow money from banks. Apart from that, efforts must be made to increase credit funds of banks, so that we will have greater and more stable sources of funds. With regard to financial management of banks, it should be changed from an "administrative type" to "enterprise type," so that vocational development of banks conform with their expenses. Financial enterprises should increase their own accumulation, and enhance their capability for self-reform and self-improvement, and create conditions to form an electronic network in terms of telecommunication, settling account, coordination of funds and information collection.

#### RELATIONS BETWEEN FINANCIAL STRUCTURAL REFORM AND ENTERPRISE REFORM.

Starting with the reform in the business management inside specialized banks, and abolishing the system of specialized banks monopolizing money supply for enterprises are undoubtedly important external conditions for deepening enterprise reform. However, some enterprises can sustain their production operation by borrowing, and disregard the plan for restricting the production of goods in excessive supply, and supporting the production of goods in great demand. Judging from the inner structure of enterprises, we find out that all this is directly connected with the fact that enterprises only assume responsibility for their profits, but not their losses, and that they lack the mechanism for self-regulation. Since the state assumes responsibility for the losses of enterprises, enterprises dare to use the funds raised at whatever high cost. Banks always face a great pressure for the demand of funds. In such a way, some financial enterprises will deviate from a correct business orientation. Therefore, deepening enterprise reform, vigorously pursuing various kinds of responsibility systems in business operation, and speeding up the separation between ownership of enterprises and the power of operation are important external conditions for turning banks into true operators of currency and funds. Therefore, relations between banks and enterprises are corporate relations. When funds are available, loans can be granted. When funds are not available, loans cannot be granted. This will change the method of banks monopolizing the money supply for enterprises. When enterprises are not able to get money supply from banks, they must raise funds on market. But, to enterprises which assume sole responsibility for their own profits and losses, the costs for raising funds are undoubtedly severe test for the achievements of their

business. In such a way, enterprises' demand for funds can be controlled by their inner mechanisms. Financial enterprises should also provide various kinds of financial tools to improve quality of service and work efficiency. In competition, banks have rights to choose enterprises and vice versa. Banks and enterprises mutually promote and condition each other to jointly carry forward the reform.

RELATIONS BETWEEN FINANCIAL STRUCTURAL REFORM AND PRICE REFORM. After making specialized bank enterprises, the motion of credit funds is, to a great extent, guided by profit rate. If information on price is not accurate enough, blind flow of funds might be caused. This will also bring difficulties to the rational readjustment of production setup and product mix. In the meantime, the level of the commodity price is a major symbol indicating whether the money supply is tight or relaxed, and whether the amount of currency in circulation is rational. Therefore, financial structural reform, especially the establishment of indirect regulation and control system based on our efforts to make specialized bank enterprises, and to promote market mechanism need the systematic reform in price system as necessary external conditions.

RELATIONS BETWEEN FINANCIAL STRUCTURAL REFORM AND THE BUILDING OF LEGAL SYSTEM. The fact that specialized banks and other financial institutions exist as legal entities has objectively demanded relevant legal conditioning and protection. This will be beneficial to the independent operation of financial enterprises within the scope permitted by law. In recent years, the state has promulgated some financial laws and decrees. But the work in this regard is still weak. This is related with the problem of management. These laws and decrees must be truly enforced. In the meantime, they should be further improved, so that they will become more systematic, perfect and standardized.

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STATISTICAL DATA ON THE ACHIEVEMENTS OF 8 YEARS OF ECONOMIC STRUCTURAL  
REFORM--PART II

Beijing HONGQI [RED FLAG] in Chinese No 14, 16 Jul 87 pp 27-28, 29

[Article by the State Statistical Bureau]

[Text] II. Important Achievements in Rural Reform

Since the 3d Plenary Session of the 11th CPC Central Committee, the family contract responsibility system and other forms of reform have been implemented in the rural areas. Thus, the rights of the producers to make their own operational decisions have been expanded, and the enthusiasm of the masses of peasants has been aroused. On the basis of family operations, various flexible economic combinations have been formed. Besides the village cooperative organizations, centered on farming land, the peasants have set up various forms of economic joint units. With the increase in agricultural productivity, and the development of a specialized division of labor in the rural sector, a large part of the labor force has been transferred from planting to multi-operations. The structures of agriculture, forestry, animal husbandry, sideline occupations, and fishery have been preliminarily readjusted. Industries, commerce, and other service industries operated by village and town collectives and individual village households have rapidly developed, and the rural economy is being transformed into a multi-departmental operation. Therefore, the production of rural commodities has substantially increased, and the income of peasants has increased manifold.

The Situation in the Implementation of the Contract Responsibility  
System Linked to Production in Rural Areas

	<u>Unit</u>	<u>1983</u>	<u>1984</u>
1. Number of production teams implementing the contract responsibility system linked to production	Thousand	5,863	5,690
Proportion to the total number of production teams	Percent	99.5	100.0



	<u>Unit</u>	<u>1983</u>	<u>1984</u>
In which: Number of production teams implementing the all-round contract system	Thousand	5,764	5,636
Proportion of production teams implementing the responsibility system	Percent	98.3	99.1
2. Number of households implementing the contract responsibility system linked to production	Thousand	179,854	183,979
Proportion of village (commune) households	Percent	97.1	97.9
In which: Number of households implementing the all-round contract system	Thousand	174,975	181,455
Proportion of households implementing the responsibility system	Percent	97.3	98.6

Basic Situation of Rural Economic Joint Units in 1986

	<u>Number of joint units (thousand)</u>	<u>Number of people engaged (thousand)</u>	<u>Gross income (billion yuan)</u>	<u>Net income (billion yuan)</u>
Total	478.1	4224.8	16.300	6.098
Agriculture	78.7	481.9	1.766	0.951
Industry	230.4	2542.2	9.985	3.237
Construction industry	34.2	598.5	1.449	0.644
Transportation industry	70.1	256.2	1.506	0.684
Other industries	64.7	346.0	1.594	0.582

### The Total Value and the Composition of Social Agricultural Production<sup>1</sup>

	Absolute value (billion yuan)		Composition (percent)	
	1978	1986	1978	1986
Total value of social agricultural production	203.754	755.423	100.0	100.0
Total value of agricultural production	139.700	401.301	68.6	53.1
Total value of rural agricultural production	39.650	238.079	19.4	31.5
Total value of production of rural construction industries	13.474	59.193	6.6	7.8
Total value of production of rural transportation industries	3.450	24.540	1.7	3.3
Total value of production of rural commerce and catering industries	7.480	32.310	3.7	4.3

Note: 1. This table is calculated on the basis of current prices. The total value of agricultural production does not include the production value of village industries and that of industries below village level. The same applies to the table below.

### The Total Value and the Composition of Agricultural Production

	Absolute value (billion yuan)		Composition (percent)	
	1978	1986	1978	1986
Total value of agricultural production	139.700	401.301	100.0	100.0
Cultivation of crops	107.164	249.830	76.7	62.2
Forestry	4.806	20.119	3.4	5.0
Animal husbandry	20.927	87.354	15.0	21.8
Sideline industry	4.596	16.436	3.3	4.1
Fishery	2.207	27.562	1.6	6.9

The Situation in the Development of the Two Ranks of  
Enterprises in the Rural Areas

	Number of enterprises (thousand)			Number of people engaged (thousand)		
	1978	1986	1986 as a percentage of 1978 (percent)	1978	1986	1986 as a percentage of 1978 (percent)
Total	1,520	1,520	Equal share	28,260	43,920	155.4
Agricultural enterprises	500	240	48.0	6,080	2,410	39.6
Industrial enterprises	790	880	111.4	17,340	30,410	175.4
Transportation enterprises	60	80	133.3	1,040	1,100	105.8
Construction enterprises	50	80	160.0	2,360	8,070	341.9
Other enter- prises	120	240	200.0	1,440	1,930	134.0

The Situation in the Development of Rural Industrial and  
Commercial Individual Households

	Unit	1981	1986	From 1981 to 1986, increased by
Number of industrial and commercial individual households	Thousand	960	9,200	8.6 times
Number of people engaged	Thousand	1,220	14,380	10.8 times

# Rural Commodity Rate Rises, Peasant Income Increases

	<u>Unit</u>	<u>1978</u>	<u>1986</u>
Commodity rate of rural agricultural and sideline products	Percent	45.2	58.0
Commodity rate of rural industrial and agricultural products	Percent	53.7	68.1
Per capita net income of rural households	Yuan	133.6	423.8
Of which: Per capita productive net income of rural households <sup>1</sup>	Yuan	122.9	374.7

Note: 1. Productive net income of rural households refers to the net income obtained from peasants engaged in agriculture, forestry, animal husbandry, sideline industry and fisheries, and those engaged in rural industry, construction, transportation, commerce, and food industry. It does not include the net income of peasants engaged in services, money and gifts sent or brought back from overseas, public welfare funds, accumulated funds of socialist collectives, or government subsidies.

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THE KEY TO STEADY GROWTH: A SCALE OF CONSTRUCTION IN KEEPING WITH NATIONAL STRENGTH

Beijing HONGQI [RED FLAG] in Chinese No 14, 16 Jul 87 pp 29-33

[Article by Wang Mengkui [3769 1125 1145]]

[Text]

I

Experience over many years has repeatedly shown that maintaining the compatibility of the scale of construction and national resources is the key to steady economic growth.

As for national resources, an analysis may be made from two different angles. In a most common sense, national resources represent the sum total of a country's human, material and financial resources and even social, political and military strength. Setting aside social, political and military factors, national resources based solely on a study of the economic aspects means a country's total social output. Compatibility between the scale of construction and national resources, generally speaking, means compatibility between material resources capable of being applied to capital construction and financial resources.

Experience shows that a scale of construction exceeding national resources will naturally impair the proportionate relations of the national economy, giving rise to a string of negative consequences.

First, there is a poor return on investment. The possibility of the scale of construction exceeding commodity supplies, with "not enough to go around," will inevitably bring a lot of problems, lengthening the cycle of construction and detracting from the results of investment.

Second, production for the year is retarded. Capital construction will call for too large a proportion of supplies. There is no guarantee for raw and other materials, machinery, equipment, fuels, and power needed for production for the year. The existing production capacity will be left idle. With new projects completed, their role can hardly be brought into full play because of an inadequate supply of raw and other materials, fuels and power. This means a dual waste.

Third, a strain is put on the people's life. Too large a scale of construction will stimulate a swelling demand for construction materials, interfering with the production of the means of subsistence. On the other hand, too large a construction scale will also spur a swelling demand where consumption is concerned. According to an estimate, of every extra 100 yuan invested in fixed assets, 40 yuan must be directly or indirectly transformed into consumption in life. Thus, an imbalance between purchasing power and the available supply of consumer goods will be exacerbated, leading to a rise in commodity prices and bringing about an appropriate drop in the actual living standard of the people.

What is mentioned above is material resources. Financial resources are the monetary manifestation of material resources. The scale of construction cannot exceed financial resources, and, in the final analysis, cannot exceed material resources. As people usually say that there is no money for construction, this actually means the lack of appropriate materials. Logically speaking, an increase in the amount of investment must be in line with an increase in the production of the means of production. An increase in consumption funds must be in line with an increase in the production of the means of subsistence. Given the unavailability of appropriate materials, by relying only on the issuance of more banknotes to get involved with construction, we cannot attain the aim of accelerating the pace. [sentence as published] Capitalist countries advocating Keynesianism resort to deficit spending and inflation. We cannot follow such a policy. The common disease of capitalism is the lack of an effective demand, with deficit spending and inflation used as a means to stimulate demand. This can, to a certain degree, alleviate an economic crisis for the time being. But it is after all a case of "drinking poison to quench thirst," as the Chinese saying goes. The problem that a socialist country needs to solve is the lack of an adequate supply. To use deficit spending and inflation to stimulate demand is undoubtedly to pour oil on the fire. There is nothing to be feared that our country, as a developing one in the process of large-scale construction and reform, is bedevilled with a little red ink and a rise in commodity prices. But given a large pool of red ink and a rise in commodity prices beyond certain limits, a big problem can arise, threatening the steady growth of the economy.

Since the founding of the PRC, there have been several lessons from a swelling investment. One was the "Great Leap Forward" in 1958. Another was a blind effort to expand construction on the third front in 1970. Still another was the matter of "working vigorously to get ahead fast" in 1978. These three cases of swelling investment, though under different social historical conditions, were not all attributable to the same cause. But they at least share the same features in the following three respects: a) The scale of construction exceeded national resources. b) A serious imbalance in the national economy was brought about, with not only staggering direct economic losses but also serious after-effects. c) A large readjustment was needed to bring about a solution. An increase in investment beginning in the fourth quarter of 1984 also produced a negative effect on economic construction and economic reform--an effect so far not completely eliminated.

## II

The scale of construction being too large is at present a problem that must be seriously solved in economic development. According to statistics, all social investment in fixed assets in 1984 was 33.9 percent more than in 1983. That in 1985 was again 38.8 percent more than in 1984. In 1986, despite a measure to "lower the temperature," an increase of 16.7 percent was still registered compared with 1985. The total amount involved reached 296.7 billion yuan, 220 percent the figure in 1983. For several consecutive years, the growth of investment obviously exceeded the growth of national income, with a proliferation of projects everywhere and the whole country turned into a large work site. According to an estimate, more than 160,000 projects were under construction throughout the country, with a total investment of about 895 billion yuan. Apart from the projects already completed, all the projects to be completed still required 590 billion yuan, 60 percent of the total amount of investment for the Seventh 5-Year Plan. Such a large scale of construction obviously could hardly be absorbed by national resources. An increase in investment for several consecutive years had been a serious potential nonstabilizing factor in economic development. Despite a gradual alleviation of the situation after more than 1 year of effort, a fundamental solution had so far not been brought about. In 1986, the State Planning Commission laid down eight rules governing the sorting out of projects under construction. Actually, various areas stopped or delayed the construction of only 1,200 projects, which were less than 1 percent of the total national figure. Meanwhile, new projects were immediately taken up. This shows that the practice of increasing investment has not been completely stopped. This can never be treated lightly.

Apart from differences in the matter of social and political conditions, the swelling in investment in recent years, as compared with past cases of swelling investment has the following three distinguishing features based on a study of the economic aspect alone:

First, a swelling in investment coincides with a swelling in consumption funds. In the previous several cases of swelling investment, a reduction in the people's consumption was relied upon to bring this about. The swelling investment in recent years has coincided with a swelling consumption fund. According to statistics, of the 8 years from 1979 to 1986, as far as indexes represented by the average pay for workers of units owned by all the people and total industrial output value and the growth rate of productivity of full-time workers of industrial enterprises are concerned, there was 1 year (1984) when the average annual increase in workers' pay exceeded the growth rate of total industrial output value. There were 3 years (1979, 1980, and 1986) when the average annual increase in workers' pay approached the growth rate of total industrial output value. There were 4 years (1979, 1981, 1984, and 1986) when the average annual increase in workers' pay exceeded the growth rate of labor productivity, and 2 years (1980 and 1982) when it came close. There was 1 year (1984) when the average annual increase in workers' pay exceeded the growth rate of total industrial output value and also the growth rate of labor productivity. A swelling in collective consumption also assumes serious proportions. In the past 5 years,

administrative expenses have nearly doubled, with an average annual increase of 14 percent, obviously higher than the average annual 12 percent increase in national income and the average annual 8.8 percent increase in revenue in the corresponding period of time.

Second, extra-budgetary investment swells. Given the management system of great concentration in the past, allocations for investment in fixed assets were basically made from national revenue. The investment included in the budget accounted for over 80 percent of all investment in fixed assets. In recent years, given the reform of the management system and the delegation of power, there have been more funds from all society. National revenue has increased. But there has also been a great change in the composition of revenue. 1) The proportion accounted for by regional revenue has increased, while that represented by central revenue has decreased--around 50 percent of all revenue. 2) The proportion accounted for by extra-budgetary funds has increased, while that represented by budgeted funds has decreased. Extra-budgetary income is equivalent to the proportion represented by national income included in the budget. It rose from 42.4 percent in 1979 to 83.3 percent in 1985. Extra-budgetary funds owned by departments, areas and enterprises rose from 34.7 billion yuan in 1978 to 167 billion yuan in 1986. Now, the extra-budgetary investment in fixed assets accounts for two-thirds of the total investment under the system of ownership by the whole people, and three-fourths of the total of all social investment in fixed assets. This is a most important aspect of the current swelling in investment. As far as conditions in the implementation of the Sixth 5-Year Plan are concerned, the budgeted investment exceeded what was included in the state plan by 14.2 percent, while the extra-budgetary investment exceeded the latter by 85.2 percent.

Third, there is a rise in the proportion represented by nonproductive construction. Since the founding of the PRC, of the investment in capital construction by units owned by the whole people, that part accounted for by productive construction and nonproductive construction is made up of percentages as follows:

	First 5-Year Plan	Second 5-Year Plan	1963- 1965	Third 5-Year Plan	Fourth 5-Year Plan	Fifth 5-Year Plan	Sixth 5-Year Plan	1986
Productive construction	67.0	85.4	79.4	83.8	82.5	73.9	57.4	61.0
Nonproductive construction	33.0	14.6	20.6	16.2	17.5	26.1	42.6	39.0
Of this:								
Housing	9.1	4.1	6.9	4.0	5.7	11.8	21.3	15.7

Except for the First 5-Year Plan, the proportion represented by nonproductive construction was relatively low. The Sixth 5-Year Plan witnessed a jump to 42.6 percent from 26.1 percent in the period of the Fifth 5-Year Plan. In 1986, despite a reduction, the proportion was still 39 percent. A proper increase in the proportion of nonproductive construction with the expansion of construction in such fields as housing, public utilities, service



undertakings, culture, education, sports, sanitation, and so forth is necessary. But if excessive construction is taken up in these fields, productive construction will suffer. This does not help developing reserve strength for economic development. It should especially be pointed out that of the investment in nonproductive construction in recent years, quite a large part is devoted to high-class hotels, restaurants, guest houses, amusement parks, "centers" of various activities, and other flamboyant, impractical projects.

A swelling in investment and consumption, as mentioned above, is a potential problem not to be overlooked in economic development. That being the case, why has there been no major problem in economic development in recent years, with a given pace of growth maintained and the people's living standard continuously improved? Apart from certain flexibility of absorption where the national economy is concerned, this has to do with the following:

First, the use of foreign exchange balance on hand and the issuance of banknotes have played a part in relieving the situation. Our country has traditionally been short of foreign exchange. Beginning in 1921, there has been a turn for the better in the economic situation, with an increased foreign exchange balance. The foreign exchange balance reached \$14.3 billion at the end of 1983, and \$14.4 billion at the end of 1984. The import of machinery, equipment, raw and other materials, and consumer goods helped in supporting construction, increasing market supplies and relieving the contradiction between total social demand and total supply. An increase in banknotes issued in recent years has been called for by the economic reform and the development of the commodity economy. The excess part of issued banknotes has also not been all absorbed by a rise in commodity prices. A part of it has been held on a steady basis by some residents in the form of currency and in other forms. This has also served to relieve the contradiction between total demand and total supply. But these two factors are not of a regular nature. The foreign exchange balance has become less and less as it is tapped. There is also a limit to an increase in the issuance of banknotes. There has not been left much room for the alleviation of the contradiction between total demand and total supply.

Second, the use of foreign capital has produced a positive effect. By the end of 1986, our country's foreign debts, including foreign investments, totaled \$20.6 billion, \$7.6 billion of them long-term low-interest loans. This has played a role in enlarging the scale of construction. The use of foreign capital represents an important part of the effort to open up to the outside world. Within a given period of time, foreign debt is a pure inflow of capital and can make up for a deficiency in domestic construction funds, stimulating economic growth. But principal and interest payments must be made on debts. If quantity gets out of control with poor results in the matter of use, at the peak of principal and interest payments, there will be a reduced inflow of capital, and even a burden, making it impossible to discharge old obligations without more, new debts being incurred--giving rise to a passive situation. Some developing countries have provided us with lessons in this respect. To use foreign capital more effectively, we should uphold the following three principles: 1) The total amount of foreign debt must be under control. The foreign debt mix must be rational and be

compatible with our own capacity for repayment and for absorption. 2) Foreign debts incurred must be devoted to production and construction, with an emphasis on export enterprises as foreign exchange earners, enterprises productive of products as substitutes for imports, and technologically advanced enterprises. They must also be used in a satisfactory and effective manner. 3) Net income generated by using foreign capital can under no circumstances be all spent. A part enough to cover principal and debt payments must be kept. This is a guarantee for the maintenance of our international reputation and for our being invincible.

Third, there has been a change in the process of accumulation. The level of personal income is not equal to that of personal consumption. Given low income in the past, the gap was very narrow. In recent years, with an increase in the income of urban and rural residents, the margin of income over consumption has increased.

Of the amount, quite a large part has been converted into savings. In 1984, the year-end balance of savings deposits of urban and rural residents throughout the country reached 121.5 billion yuan, an increase of 36 percent over the preceding year. In 1985, it reached 162.3 billion yuan, an increase of 34 percent over the preceding year. In 1986, it reached 223.7 billion yuan, an increase of 38 percent over the preceding year. For several consecutive years, the figure exceeded the increase in the income of urban and rural residents. This shows that more income has been transformed into savings, which are devoted to construction by the state in a concentrated way. Meanwhile, the issuance of treasury bonds and other bonds has also enabled a part of individual income to be converted into construction funds. All this has played a role in adding to the accumulation and delaying consumption.

Finally, what is more important is that the party Central Committee and the State Council discovered in time the phenomenon of an overheated economy arising from a swelling in investment and consumption in 1984, and adopted correct countermeasures. They did not let the phenomenon follow its own course. Nor did they suddenly apply the brakes. Instead, they made a slow readjustment striving for a "soft landing." Thus, temperatures gradually dropped. A big earthquake was avoided. This helped toward steady economic development. Now, this move has been marked with great results. Some problems have yet to be continuously solved. If after further efforts this year or next, the negative consequences of the overheated economy this time around can be entirely eliminated, this means a perfect success in practice, with small readjustments gradually introduced to avoid a major overhaul. This also carries significance in future economic construction.

### III

In the many cases of swelling investment in the past, there were problems like an incorrect understanding, mistakes in work and also factors related to the economic system. To control a swelling in investment and bring the scale of construction in line with national resources, we must find the right cure for a given disease and administer comprehensive treatment.

First, we must raise ideological awareness and overcome the trend toward blindly pursuing too rapid a pace of growth. A swelling investment is generated by the blind pursuit of a high pace. Our country is a vast one with a poor foundation and a large population. Despite a big improvement in the economic picture after more than 30 years of arduous efforts, generally speaking, it is still relatively backward. Food, clothing, shelter and transportation for a population of 1 billion and the problem of employment constitute a great pressure. A horizontal international comparison also represents a great pressure. A strong desire for a rapid change in the backward features of the country is a matter of course and is also to be cherished. But, under these circumstances, there is the need to keep cool-headed. Needless to say, given harmonious proportionate relations in the national economy and attention to economic results as a prerequisite, a high pace is not a bad thing. It is a good thing. The problem is that the blind pursuit of a high pace and a doubling ahead of time by going beyond the limits of national and financial resources will naturally cause various strains and a loss of control, impairing proportionate relations and detracting from economic results and even causing big fluctuations in economic development. Undoubtedly, our socialist modernization effort is provided with many favorable conditions. But there also exist many contradictions and difficulties. On the one hand, we must take into full consideration favorable conditions and build up confidence in being invincible. We must oppose the idea of being pessimistic. Meanwhile, we must soberly take note of contradictions and difficulties and build up a determination to wage a long struggle. We must oppose the idea of succeeding overnight. Our country is still in the primary stage of socialism. The modernization target can only be realized in stages systematically. There can be no instant success. With an understanding of this, there can be an ideological foundation for the effort to correct the trend toward blindly pursuing a high pace and to overcome the inveterate disease of swelling investment.

Second, we must reform the investment management system. The reform of the investment system is an important part of the effort to reform the economic system. Through reforming the investment system, we must correctly define the scope of investment at the central, regional and enterprise levels, realize the unity of responsibility, power and benefits in investment, and create a sound mechanism for maintaining an appropriate investment scale and the rational input of funds to guarantee a benign cycle of construction funds and improve the results of investment. Now, the investment system is still not sound enough. It still cannot effectively prevent a swelling in investment. There is a lack of restraint based on a system in making investments. There is no unity of responsibility, power and benefits. People can even do things without following the procedures for capital construction. Without finding adequate technological and economic proof and without making feasibility studies, they get immediately committed. The people concerned do not even know what responsibilities or risks they are assuming. Decisionmaking power in investment has switched from centralization to decentralization, while the macroeconomic control mechanism is still not sound enough. A swelling in investment cannot be prevented. Also, the mix of investments is made irrational. Because funds are scattered and prices are also irrational [as published], there is more money in the hands of given

areas and enterprises. There is mutual competition for investment in processing industries involving a small scale and allowing for quick results and nonproductive construction, by relying on the energy, communications, and other fundamental industries and fundamental facilities launched by the central authorities with money pooled together. Because the proportions accounted for by them have shrunk appropriately, more weakness is in evidence. For example, there has been a relatively great increase in investment in the electric power industry in the past few years. But the proportion represented by it in the investment by all society in fixed assets has declined from 5.9 percent to 4.8 percent. Therefore, despite an increase in the installed capacity from 65.8 million kilowatts in 1980 to 93 million kilowatts in 1986, a tight supply of electricity is still generally felt. Of the 296.7 billion yuan investment in fixed assets in 1986, the central investment in key construction projects reached only 36.5 billion yuan, a figure that can no longer be reduced. In light of this situation, we can never use the method of "applying the same fixed standard" and "introducing the same level evenly" in reducing the scale of capital construction. Instead, we must make a concrete analysis and distinguish things in our approach. We must uphold the guideline of "three guarantees and three reductions" stipulated by the State Council early this year. This means guaranteeing construction included in a plan and reducing construction not included therein, guaranteeing productive construction and reducing nonproductive construction, and guaranteeing important construction projects and reducing non-important construction projects. The implementation of this guideline actually involves concentration and delegation of power, centralization and decentralization, and the relations between central and local areas and between the state and enterprises. The proper solution of this problem carries great significance in preventing a swelling investment in fixed assets. It is also of great significance, as far as the planned development of all the country's land, rational distribution in the matter of the regional economy, and a good industrial mix are concerned.

Furthermore, we must reduce the swelling in consumption funds. On the one hand, we must pay attention to reducing a swelling in investment. Meanwhile, we must have as much money as possible for construction. To reduce a swelling in consumption funds is an important way to increase funds for construction. The phenomenon of too rapid growth of the demand for consumption based on an ability to pay up, and the phenomenon marked by too large a quantity, too exacting a standard and wasteful and extravagant practices in collective consumption that have existed for a period of time in a departure from the level of our country's productivity cannot last. True, the aim of socialist production is to satisfy the people's needs in their material and cultural life. But production is a prerequisite for consumption. Without production, there can be no consumption. Therefore, consumption in life can only gradually rise with the development of production. Under normal circumstances, the people's life cannot be improved at a rate exceeding the rate of development of production and the growth rate of labor productivity. An increase in residents' purchasing and collective purchasing power must be compatible with the growth of social consumer goods. Our country is now in an enterprise-building period of modernization. This calls for an accumulation of large amounts of construction money. Meanwhile, we must also improve the living

standard of the population of 1 billion. Besides, the population will increase by more than 200 million by the end of the century. This is a major problem that is difficult to tackle and must be properly taken care of. It is also a sharp contradiction that confronts us in the whole process of modernization. To take care of this contradiction, we must arouse ourselves to make the country prosperous and always uphold the guideline of fighting amidst hardships, building the country industriously and thriftily, and getting everything done in an economical way. In no way can we depart from national conditions in the blind pursuit of consumption. Meanwhile, we must uphold the fixed state policy of family planning and strictly control the growth of the population. This is a major problem of principle in modernization.

Finally, we must tighten financial and economic discipline. At present, the phenomenon of laxity in financial and economic discipline is rather common. On the control of the size of investment in fixed assets, on the strengthening of important construction projects, on the control of a swelling in consumption funds, and especially on the control of collective purchasing power, the party Central Committee and the State Council gave a series of correct directives. The problem is that certain policies are still imperfect, or that there are only stipulations about principle with a lack of detailed implementation rules. Some of the regulations already laid down have also not been seriously put into force. Therefore, it is necessary that simultaneously with the further improvement of the management system, we must, from top to bottom, tighten financial and economic discipline and strengthen supervision and inspection, so that central policies can really produce the desired effect.

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A TALK COMMENCING WITH CAI YUANPEI'S 'COMPATIBILITY AND CORPORATION' PRINCIPLE FOR RUNNING A SCHOOL

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[Article by Liang Mu [5328 2606]]

[Text] In recent years, some people have strenuously advocated that universities should not come under any ideological restrictions and do not need the guidance of Marxism. They have frequently referred to Cai Yuanpei's "compatibility and corporation" principle of running a school and seemed to have contended that Cai Yuanpei's enforcement of that principle at Beijing University at that time provided the ground for undertaking bourgeois liberalization in the universities today. This has raised an extremely serious question: After all, how should we treat this principle of running a school adopted by Cai Yuanpei at that time?

The advocacy of "compatibility and corporation" as a principle in running a school has deep social and historical background. During the early part of this century, following the successive failures of the revolution of 1911 and the "second revolution," the adverse current of feudalism and doctrine of "back to the ancients" has greatly damaged the cultural and ideological spheres. At that time the stubborn fortress of feudal culture and its various academic departments were chock full of ideals of feudal culture. Some teachers of the old clique openly advocated worship of Confucianism and study of ancient classics. They propagated feudal ethics and morals, did their best to vilify new ideas, and urged going "back to the ancients" and regression. At that time, there also was a great internal dissension in the revolutionary clique of the capitalist class. Nevertheless, the strength of the newly rising national bourgeoisie was developing and the ranks of the intellectual elements were further expanded. They urgently demanded emancipation from the bondages of imperialism and feudal forces and probed for a new road to save the country. As a result, a new cultural movement with the purposes of antifeudalism and saving the nation from danger and peril briskly developed with a bold posture. It was under such conditions that Cai Yuanpei assumed the chancellorship of Beijing University, actively advocating and enforcing the principle of ideological liberalization, "compatibility and corporation," permission and encouragement of the development of diverse schools of thought, and beginning the renovation of Beijing University. With great enthusiasm he invited such personages of the new sect as Chen Duxiu,

Li Dazhao, and Lu Xun to teach at the university. He greatly supported the development of various kinds of scholastic and political societies and nurtured the growth of the atmosphere of academic researches and theoretical discussions and debates. At that time, Beijing University gathered together a large number of new cultural warriors, formed a new cultural fortress with the editorial department of the NEW YOUTH magazine as the nucleus, and thereby enabled new trends of thought and new ideas to grasp the opportunity offered and grow. The basic trend of the "compatibility and corporation" principle is to break the bondages of feudal and cultural despotism and to seek a place for the development of new culture and new ideas; the result of the enforcement was to a definite extent helping Beijing University to become the center of the new cultural movement and the place of origin of the May 4th patriotic movement and at the same time objectively provide advantageous conditions for the propagation of Marxism in China (first at Beijing University).

True, Cai Yuanpei was renowned for his advocacy of ideological liberalism. He opposed cultural despotism, which rejected the hundred schools of thought and solely respected its own. At Beijing University, he advocated academic freedom, the hundred schools of thought contend, and the free development of diversified schools of thought; hence, while devoting his efforts to introducing new personages, simultaneously he invited scholars of the old school who were politically conservative but had made positive achievements in the academic field. Nevertheless, we must note that Cai Yuanpei's principle of ideological liberalism, which permitted the existence and development of different schools of thought, emerged from the angle of academic research. In his opinion, the coexistence of different schools of thought and the free discussions on different scholastic viewpoints could free the student from being constrained by one single line of thought or the words of one single school and would be helpful in training the student to ascertain truths and his capacity to conduct independent research. Undoubtedly this is an objective demand that harmonized with the growth and development of talented people. However, this "compatibility and corporation" is by no means unprincipled or aimless or merely allows the mixing together of the new and the old and the good and the bad. On the contrary, its basic starting point is to support personages of the new school, promote the propagation of new ideas, and to meet the renovation needs. It respects the freedom of school lectures and the freedom of proper academic researches but does not permit in the least the use of learning as such nor the use of the university lecture hall to do reactionary political propaganda work. At that time among the teachers at Beijing University, Gu Hongming was a restorationist of the monarchy but was well versed in the English and German languages; Liu Sipei was one of the culprits of the Chou An Hui but was well known for his research and studies in Chinese classics. Cai Yuanpei thought that the courses they taught were not related to politics but that their academic specialities should be put to good use. He thus said to the students: "I hope that you will learn from Mr Gu's English and Mr Liu's Chinese classics, but I do not want you to support the restoration of the monarchy or a constitutional monarchy." (Sun Xiangwei's "Cai Yuanpei," p 1603) Again for example, he would not agree with killing Confucianism in one stroke but advocated treating it as a doctrine of thought and using a scientific method

to analyze and study it so that it can be utilized. However, he was firmly opposed to worshipping Confucius and to taking Confucian doctrine as the national doctrine. It can thus be seen that he made a clear demarcation between politics and learning and that his standard of right and wrong was a clear-cut one.

From this we can learn that in enforcing his "compatibility and corporation" principle, Cai Yuanpei did not take a strictly neutral attitude of objectivism regarding the new and old culture. Rather, his attitude was one of modulation. Precisely because of this the principle at that time played an active role in transforming the "feudal cultural fortress" of old Beijing University into a "new culture's place of origin" of the new Beijing University.

Nevertheless, we should also see that as the product of a stated political period, the "compatibility and corporation" principle must have its political limitations. Cai Yuanpei used the viewpoints in Liji and Zhongyong stating that "things grow together without harming each other and doctrines pursue their course without mutual contradiction" to explain his "compatibility and corporation" principle. As for the "doctrine" mentioned here, he never clearly stipulated its nature and contents, and people could make their interpretation as they liked. The objects of the "compatibility" and "corporation" could be not only new and progressive ideas and learning but also old and backward theories and heresies. He advocated: "Regardless of the type of school, if it speaks within reason and has a just cause for its support and provided it has not reached the fate of natural elimination, and although it comes into conflict with other schools, it should be allowed to freely develop." ("Selections of Cai Yuanpei's Essays on Education," p 64) He himself was of the opinion that philosophical materialism and idealism could exist in parallel without harm, that Western capitalist culture and China's traditional culture were not in conflict with each other, and that they could exist alongside each other without contradiction. By thus disregarding the principal or subordinate position of new and old things which opposed each other and allowing them to exist together, the differences in quality of opposing things are negated. The leap forward and sudden changes in the course of development cannot be seen, the role of the struggle of opposing things in historical development is negated, and so is man's historical responsibility of establishing the new and breaking the old in the struggle between new and old things. As for "words of reason" and "cause for support," quite obviously they cannot serve as the standard for judging truths because different people have entirely different interpretations of what constitutes "reason" and what constitutes "cause for support." It can thus be seen that "compatibility and corporation," as a kind of theoretical conclusion, is a sort of manifestation of Cai Yuanpei's stand of mediation and adjustment in the course of opposing feudal culture in his capacity as a member of the capitalist democratic revolutionary clique. This conclusion not only cannot reflect the general laws governing ideas, culture and academic prosperity, development and progress but also does not conform with his own educational practices. Therefore, divorced from the concrete historical environment and practices of that time, this principle's role of renovation and progress has no way to be realized.



At the time when the theater of the era was occupied by feudal culture, Cai Yuanpei advocated "compatibility and corporation," introduced Western capitalist learning and theories, and made available a place for the study of Marxism. This carried an active role in the course of China's modern era historical development and should be fully recognized. However, in the socialist universities and colleges of today should this principle of running a school continue to be implemented? Obviously not. Some people have asked: "Even the old democratic era dared to carry out this compatibility and corporation principle, why should we not dare to do so? Did not the hundred schools contend and hundred flowers blossom likewise carry the meaning of compatibility and corporation?" Obviously holders of this viewpoint have overlooked the immense changes in China's history over the past half century and more. From the time of the May 4th Movement to now, various kinds of ideological waves have been scrutinized in the actual practices of the people's struggle and the various kinds of learning and advocations of the capitalist class have been proven unable to lead China to shake off the oppression and yoke of imperialism and feudalism. It was only Marxism that was able to lead the Chinese people to achieve the great victories in revolution and construction. At present, Marxism occupies a guiding position in the realm of China's political thinking. This is a conclusion of history and not the subjective determination of any class or political party. Hence, the ideas of running a school of our educational institutions at various levels and of various kinds must be guided by Marxism. In this regard, the capitalist ideological system cannot be on even terms with Marxism or share equal honors with it, far less replacing Marxism altogether. If today we still take "compatibility and corporation" as the principle in running a school then obviously we are going against the already developed demands of the times.

In so saying, we did not mean to advocate the sealing off of ideas. Marxism itself is a structure that opens up to the outside. It needs to constantly absorb various kinds of scientific results to enrich and develop itself. It is incompatible with any sealing off and ossifying. At the same time, our party has advocated that education must face "three directions," namely, face modernization, face the world, and face the future. It has supported education of the opening type, creating a more extensive universe for the students so that they have more opportunities to come into contact with diversified scholastic viewpoints, including certain Western ideological trends and thinking of different sects and so that, through comparison and evaluation, they may proceed to learn and to be able to better understand and grasp truth and to possess the ability to create. Nevertheless, education of this opening type is never unbridled, or of the laissez-faire kind, nor is it open just for opening's sake. This is because, first, the mission of a socialist university is to train up for modernization program a large number of talented persons who can firmly adhere to the four cardinal principles, possess the spirit of reform and creating something new, have ideas, are virtuous and cultured, and strictly follow the disciplinary codes. This is the basic objective of running our schools. All our educational work and teaching activities must revolve around this objective. The great majority of today's college students were born during the period of the 10 years' disturbance. In the years of reform and opening to the outside, they have

met with many new problems, and they need to think and to evaluate to determine their own beliefs and way of life. They can be easily molded. In general, they lack the training of scientific theories, are short of the comparative life experiences and practical experiences of the old and new societies, and do not possess a strong ability to discern truth and falsehood or to judge right or wrong. Under such conditions, if, without making scrupulous selection or giving guidance, we thrust all the West's different thought waves and thinking of different sects and cliques onto the heads of the young students, obviously this would be extremely disadvantageous to their forming a correct outlook on life and on the world at large. Second, our reform and opening to the outside must progress on firmly insisting on the four cardinal principles as a precondition. To negate the four cardinal principles, both the reform and opening to the outside will suffer from errors and even failure. Naturally, we must absorb the latest results of current science and technology and, from understanding the thought waves and thinking of various sects and cliques, understand the Western world and enlarge our own vision but at the same time we must be adept at using Marxism to study and evaluate the various kinds of thought trends and thinking of different sects, obtain from them the actively beneficial things and reject those passive and harmful things. If we depart from this precondition of Marxism, depart from the guidance of Marxism, and, on the pretext of opening to the outside, demand that the lecture halls of socialist universities become the lecture halls of so-called absolute freedom and allow the West's various thought trends to rampage there at will, then this would not be opening to the outside for our own needs and for our own development but for opening to the outside for other people. By so doing, the younger generation will be the first to be harmed and at the same time objectively it will suit the demands of our domestic and external opposing forces in their vain attempt to change China's socialist system.

In reality, unbridled and so-called absolute freedom does not exist in any society. During the period of the May 4th Movement, Beijing University was able to present a highly spectacular, vivacious, and lively situation of contention between different schools of thought, not because of any so-called absolute freedom but as the result of supporting, restricting, and opposing the feudal old culture. [sentence as published] Even today people who propagate absolute freedom in reality do not wish to dispense with all forms of restraint altogether. They advocate truth pluralism and treat Marxism as a branch or one of the sects of a multitude of schools of thought, and some of them even directly refute the guidance role of Marxism, saying that Marxism was an ossified and outdated school of thought and should beat its retreat from the classroom. Is this not clear enough? Their purpose is to keep capitalist ideas from coming under any restraint and to restrain and restrict Marxism. They even hope to drive it from the ideological front. In reality, it is not that their own ideas are not under restraint but that they do not accept any restraint from Marxism. This can be understood from their reaction to and disgust at the use of Marxist philosophy to guide scientific research. Engels said: "Regardless of the kind of attitude the natural scientists take, they are bound to be subject to the control of philosophy. However, the question is whether they are willing to accept the control of certain poor but fashionable philosophies or that of theoretical

thinking built on the basis of the history and successes of generally acclaimed ideologies." ("Selected Works of Marx and Engels," Vol 3, p 533) The historical development of natural sciences (also of social sciences) has taught us that prior to the growth of Marxist philosophy, in the case of certain truthful scientists, spontaneous materialism and dialectics occasionally were able to play a definite guiding role. If it is said that this spontaneous materialism and dialectics still cannot fully dispel the infiltrations and interferences of materialism and metaphysics into scientific research, then at this time today with Marxist philosophy's scientific world outlook which possesses the full conditions of holding the highest accomplishments of mankind's theories and thinking guiding the young students to learn this correct world outlook, is it not true that it carries a great significance in their carrying out concrete scientific researches and establishing a firm and correct political direction? Not long ago, in talking about the training of creative force, Comrade Qian Xuesen took stock of his own experiences in scientific research and stressed the importance of training the capacity of understanding and making use of Marxist philosophy. He said: I idled along for a long time abroad, and in my work I found that there were certain keys to problems. After returning to the country, I found that these keys were all contained in Marxist philosophy and in dialectical materialism. This is because Marxist philosophy is the highest generalization of mankind's knowledge. If the most general law is understood, the creative power is the largest, the stand is highest and the view is farthest. These experienced words of this elderly scientist are beneficial to our educational workers and to youth. Those viewpoints rejecting the guiding role of Marxist philosophy, though carrying the banner of a demand for absolute freedom, in reality demand that our universities' lecture halls and research work be subjected to the control of the modern Western fashionable philosophies and to slavery under the West's trends of thought of all shades. What real significance of freedom is there to speak of?

Obviously, the "compatibility and corporation" principle and that of letting a "hundred schools contend and a hundred flowers blossom" are by no means synonymous. In the teaching and scientific research in higher institutions of learning we must firmly insist on implementing the latter principle, oppose the erroneous methods of always striking at and labelling with vile names the viewpoints of opposing and different schools of thought, boldly investigate and create something new, and encourage different scholastic sects to fully and freely contend. However, this is hardly to say that we may let those unscientific and erroneous thought trends and those erroneous views opposing the four cardinal principles freely go their way, be disseminated, or poison people's heart and soul. The principle of letting a "hundred schools of thought contend and a hundred flowers blossom" which we advocate, is the resolute principle of the proletariat. It is, under Marxism's guidance, through discussions, and making clear what is true or false, good or bad, right or wrong, and through supporting and encouraging those things that are advanced and scientific and criticizing and overcoming those things that are erroneous, nonsensical and reactionary, for the purposes of improving the level of science and learning and bringing prosperity to socialist culture. This is totally divergent from the trend of thought

and method of liberalization, because the latter not only can cause an enormous ideological confusion but also harms the development of science and culture.

In short, we are now in a new historical era. Today our study of Cai Yuanpei and of personages of ancient times is for the purposes of succeeding their active results and pushing our society to continue to advance, and certainly not regress.

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EXPOSITIONS ON SEVERAL IMPORTANT VIEWS IN THE REVISED AND ENLARGED EDITION OF  
'BUILDING SOCIALISM WITH CHINESE CHARACTERISTICS'

Beijing HONGQI [RED FLAG] in Chinese No 14, 16 Jul 87 pp 38-42

[Fourth part of article by the HONGQI Theoretical Education Editorial Office;  
capitalized passages published in boldface]

[Text] III. On Reform, Opening Up, and Invigoration (Second and Final Part)

[By Si Wen [2448 2429]]

9. "THE POLICY OF OPENING UP MAY BRING WITH IT SOME HAZARDS, AND SOME DECADENT CAPITALIST THINGS MAY BE BROUGHT IN, BUT OUR SOCIALIST POLICIES AND STATE APPARATUS HAVE THE STRENGTH TO OVERCOME THESE THINGS. THUS, THIS SITUATION IS NOT SOMETHING TO BE FRIGHTENED OF." (Deng Xiaoping: "Building Socialism With Chinese Characteristics," revised and enlarged edition, p 118)

Our policy of opening to the outside world is established on the basis of the four cardinal principles. It requires that we only draw in, in a planned and selective way, the advanced science and technology of the capitalist countries and other beneficial things. We certainly will not be drawing in capitalist systems and capitalist lifestyles. Despite this, some decadent bourgeois things may be brought in. It is impossible to avoid this. In understanding this matter at present, we must guard against two biased ideas. The first is that which takes all negative phenomena and considers them to be the result of opening to the outside. This is wrong. In fact, with China's 2,000 years of feudal society and 100-plus years of semifeudal, semicolonial society, the influence of feudal ideology and capitalist ideology has still not been completely eliminated. If one does not recognize this, there will be no way of explaining the negative and decadent phenomena which appeared in the period when the country was closed to international intercourse. The second view is the one which holds that the currently existing negative phenomena have nothing to do with opening to the outside world. This is also wrong. This understanding does not conform to reality. It does not assist in the resolution of the problem and makes us lose our vigilance. It should be recognized that following the implementation of the policy of opening to the outside world, our country's economic and cultural intercourse with the various countries of the world and the flow of people has increased. These aspects have played a positive role in the building of our country's

material and spiritual civilizations. At the same time, it should be said that some decadent bourgeois things have been brought in. These have had a serious corrupting effect on some people's ideology and lifestyles. Some weak-willed persons cannot withstand the lure of bourgeois lifestyles and the corruption of obscene movies and videos and pornographic and low-level publications. Thus, in the intercourse involved in opening to the outside world, they have forfeited national standards and personal standards and have traveled the road of crime by accepting or demanding bribes, smuggling, engaging in illegal foreign currency dealings, or selling state secrets. Even some evil things which had been wiped out long ago following liberation, such as prostitution and gambling, have reappeared under the pounding of decadent bourgeois ideology. Some people blindly worship the capitalist system and worship bourgeois democracy and freedom and even urge "total Westernization." They oppose the Communist Party's leadership of the socialist cause and advocate that China take the capitalist road. Some other people do not analyze, do not discriminate, and do not critically assess the various types of Western bourgeois philosophical, social, and scientific ideological trends. Rather, like a swarm of bees, they blindly engage in worshipping them. Thus, even things which the Western countries consider low and harmful are brought in and propagated. All of these things pose a serious danger to the party and the state, both politically and economically. They also obstruct the smooth implementation of reform and opening up. Of course, these negative phenomena are far fewer than the positive results which have come from opening up to the outside. As long as we maintain clear heads, persist in implementing the series of principles and policies since the 3d Plenary Session of the 11th CPC Central Committee, and use the strength of the state apparatus to seriously strengthen management, we will indeed be able to get rid of these negative phenomena or reduce these phenomena to the lowest level.

First, we must adhere from beginning to end to the principle of grasping economic construction with one hand and legal system construction with the other hand, and must persist in striking at all types of criminal activities. In April 1982, the CPC Central Committee and the State Council made the decision to strike at serious crimes in the economic area. This stipulated that if someone engages in criminal activity which seriously harms the economy, they must be seized and not released, and vigorously and speedily punished. Serious violations of law and discipline in other areas are also to be firmly examined and handled. The party Central Committee and the State Council also stipulated that reactionary or pornographic cassettes, videotapes, and such products are to be firmly suppressed and confiscated and that it is not permitted to spread them. Violations of the regulations are all to be punished in accordance with the law. In the last few years many areas have seriously implemented the party and state's decision. Of particular note is that they have centralized their strength in handling major cases. Among the masses, the response to this has been good. Striking at the various types of criminal activities is a long-term struggle. It is not something one needs only resolve once. However, only by persisting from beginning to end with the principle of having one hand grasp economic construction and one hand grasp legal system construction will we be able to guarantee that the policy of opening to the outside progresses in the correct direction.

Second, the central authorities have all along persisted in the correct policy of carrying out reform and opening up, and using the four cardinal principles to educate the people and oppose bourgeois liberalization. As Comrade Deng Xiaoping has pointed out: "The 3d Plenary Session of the 11th CPC Central Committee decided on the implementation of the policy of opening up. At the same time, it required that we check the tendency of liberalization. These are mutually related issues. If we do not check this tendency, we will not be able to implement the policy of opening up." (Deng Xiaoping: "Building Socialism With Chinese Characteristics," revised and enlarged edition, p 110) Since the downfall of the "gang of four" there have been several floods of the ideological tide of bourgeois liberalization. A major cause of this is the corruption caused by foreign bourgeois ideologies. These ideological tides damage social stability and unity, interfere in the smooth carrying out of reform and opening up, and are extremely dangerous. In the process of opening up we cannot avoid the influence of foreign bourgeois ideology. Thus, opposition to bourgeois liberalization is going to be a long-term, arduous, and complex task. However, if we seriously implement the central authorities' directions and overcome the situation of weakness and laxness, the problem can be solved. The student unrest which affected over 20 cities at the end of last year was quite a force and caused some comrades to worry. However, when the central authorities took a number of effective measures and used the weapons of law to carry out guidance, the problem was resolved very quickly. Of course, if we are to truly resolve the problem on the ideological level, we will need to adopt more effective forms in the future and carry out deep-going education in adherence to the four cardinal principles for workers, peasants, and intellectuals, and especially for young students.

Third, our party has paid special attention to the question of party building while opening to the outside world. Since the 3d Plenary Session of the 11th CPC Central Committee, through bringing order out of disorder and restoring and carrying forward the fine styles of seeking truth from facts, building the mass line, and criticism and self-criticism, our party has played an important role in guaranteeing the smooth implementation of lines, principles, and policies. At the same time, the party Central Committee has adopted a series of major measures aimed at correcting party style, and has severely handled those party members who have made serious mistakes or committed crimes. For example, the former Jiangxi provincial party committee deputy secretary and governor, Ni Xiance, and other people used their powers of office to seek private gain through fraudulent practices, were morally degenerate, and seriously violated party discipline and state law. They were expelled from the party. On 30 June, the Central Commission for Discipline Inspection made another decision: In the future, any party member who solicits bribes, regardless of the severity of the offense, will be expelled from the party. This shows that our party is firmly engaged in the struggle against corruption within the party and is using this to educate the vast number of party members. We firmly believe that in the situation of reform and opening up, our party will only be able to further correct party style by seriously grasping the self-building of the party. This is how we will be able to greatly increase our capacity to resist the corrosion of corrupt bourgeois ideology.

Fourth, the central authorities have made the strategic decision that at the same time as we build a high degree of material civilization, we should build a high degree of socialist spiritual civilization. Since the 3d Plenary Session of the 11th CPC Central Committee, various areas have done much work in terms of building socialist spiritual civilization and have achieved reasonable advances. In national terms, however, the results are still less than ideal, as within the party and in society there are still people who are easily affected by decadent bourgeois ideology. However, as long as the party pays attention to this and, at the same time as reforming and opening up, adopts feasible and effective measures and greatly strengthens the building of spiritual civilization, then we will certainly be able to gradually form a republic mood and a social environment which is beneficial to socialist modernization, increases people's capacity to resist the decadent capitalist and feudal ideologies, and fosters a generation of socialist civilians who have ideals, morality, culture, and discipline. Thereby we will be able to reduce to the lowest possible degree the various negative phenomena which opening to the outside may bring in. Very recently, through many forms such as having leaders hold direct dialogues with the masses, through inviting heroes and models to make reports and establishing Marxist lecture teams, and through promoting reading to invigorate China, young people have been assisted in establishing a correct world view and outlook on life and in learning how to use a Marxist stand, outlook, and methods to analyze the various social theories and ideological trends. Their capacity for differentiating right and wrong and resisting the various types of mistaken ideologies has been heightened. Good results have been achieved in this, which clearly proves the above point.

To sum up, the four cardinal principles to which we adhere determine the socialist nature and orientation of opening to the outside. Our education of cadres and the people in adherence to the four cardinal principles is for the purpose of ensuring the correct orientation in opening to the outside world. If, in the opening to the outside world, a situation which diverges from the socialist orientation suddenly occurs, the socialist state apparatus will intervene and correct this. Thus we say that opening to the outside world can speed our four modernizations but will not affect the basis of the socialist system. Facts prove that since the 3d Plenary Session of the 11th CPC Central Committee, opening to the outside world has injected new vigor into our nation's socialist construction, raised the technical level and management level of our national economy, and played a role which should not be understated in regard to our nation's economic development. It will have far-reaching effects on the development of China in the future. Thus Comrade Deng Xiaoping has said: "The policy of opening to the outside world which China has implemented is correct, and great benefits have derived from it. If there is a deficiency, it is that we have not opened up enough. We must remain open and increasingly open up." (Deng Xiaoping: "Building Socialism With Chinese Characteristics," revised and enlarged edition, p 160)



[By He Zuo [0149 0155]]

10. "THE PRINCIPLE WE HAVE NOW SET IS: WE MUST BE BRAVE AND THE PACE MUST BE STEADY." (Deng Xiaoping: "Building Socialism With Chinese Characteristics," revised and enlarged edition, p 106)

This is the general guiding principle Comrade Deng Xiaoping has put forward in regard to economic structural reform.

When he says that we must be brave, it means that we must firmly and unwaveringly carry out the economic structural reforms, and that regardless of the difficulties, obstacles, and setbacks encountered, we must not shake our faith and determination in reform. This steadfastness is established on a deep understanding of the historical inevitability of reform. First, reform is the only road by which to shake off poverty and invigorate the economy. In the 30 years before the 3d Plenary Session of the 11th CPC Central Committee, although in our socialist construction we realized great achievements because in the economic structure there existed some problems of excessive or over-tight control, the enthusiasm and creativity of the production operation units and the vast masses were repressed. This resulted in the development of the productive forces being restricted. For a long period there was no basic change in the situation of poverty and backwardness. The lessons of history told us that if we did not reform the overcentralized, ossified economic system, then it would be difficult to develop the social productive forces more quickly, be more difficult to accord with the challenge of the new technological revolution, and more difficult to quickly push modernization forward. In addition, socialism would not be able to show its appropriate appeals. After the 3d Plenary Session of the 11th CPC Central Committee, as we implemented the principles of reform, opening up, and invigoration, and appropriately set down a series of policies, various economic forms and operational modes were developed, the scope of the market expanded, and economic levers and legal measures gradually began to play a greater regulatory and controlling role. Domestic and foreign economic and technological interflow and lateral alliances obviously increased and our country began to enter its period of greatest prosperity, in which national strengths have increased most quickly, and in which the people have obtained the most benefits, since the founding of the PRC. Practice has proven that our road of reform is completely correct and that we cannot waver in the orientation of reform. Second, reform is a wide-ranging, deep-going sustained change. Its pounding of existing models, traditional concepts, and the forces of habit is unprecedented and thus inevitably there will be opposition. Some of the opposition comes from the "left." For example, some people are still used to using ossified theoretical concepts and thoughts to tailor lifestyles and to assess and determine the gains and losses of reform. Some even say that invigorating enterprises and developing a socialist commodity economy are "engaging in capitalism." Some of the opposition comes from the right. For example, some people use bourgeois liberalization viewpoints to distort the socialist nature of the reforms and try to lead the reforms onto the road of "total Westernization." Although the number of people who hold these two types of views are very small, their influence and danger should not be overlooked. Only by recognizing that reform is the trend of the times

and that there is no road other than reform will we be able to constantly maintain sober minds and pay attention to eliminating the various types of obstacles and interference and adhere to the carrying out of reform. In addition, the reforms themselves are a vast systems engineering project. The various links within and various aspects of the reforms are all mutually reliant and are all linked together in an extremely close relationship. We are now in transition from the old system to the new. The regulations and control functions of the old system are being continually reduced, but the new systems cannot be built up and perfected in a day. This inevitably means that in macroeconomic management some gaps and flaws have been left. It is not possible to immediately have completely rational microeconomic mechanisms. Therefore we cannot avoid the occurrence of contradictions and complex situations in economic life. The loss of macroeconomic control which occurred on several occasions in recent years and the various problems which exist at present in the areas of finance, credit, investment, and consumption are all closely related to the fact that the old and new systems exist together. Some lawless persons have also used this situation to engage in speculation, graft and embezzlement, bribery and swindling, smuggling and trafficking, and other criminal activities. We must have a clear understanding of the problems which may occur during the reforms and adopt effective measures to resolve them. We must also firmly believe that these are problems of progress and that we cannot let our determination to carry out the reforms waver or even decide to turn back just because some problems have occurred. Rather, we should bravely persist in the reforms and accelerate the pace of the reforms.

When it is said that the pace must be steady, it means that we must steer a cautious course, progress steadily, sum up experiences in a timely way, and resolve problems quickly when we find them. When we are sure about reforms, we should carry them out directly; but when we are unsure as to the results, we should first carry out experiments. We must not try to accomplish all at one stroke. A steady pace is a natural requirement of reform. Reform is a mass undertaking of renewal. There is no ready-made road we can follow. We can only proceed from China's concrete situation and engage in practice and exploration under the guidance of Marxism. We often say that we must grope for rocks as we cross the river. This is because our reform ideas may accord with reality or may not completely accord with reality. In the latter case there will be a need to revise and supplement the reforms in practice. For example, we originally hoped to create a fine market environment for enterprises. However, practice has told us that it is not possible within a short period to complete coordinated reforms in pricing, taxation, finances, and credit; to establish and perfect diverse economic organizations to serve the production and circulation of commodities, and to form an integrated system of economic laws and regulations. At the same time, a sequential and gradual process is required if we are to have the masses form value concepts and lifestyle habits which accord with the development of a commodity economy. We also planned to enliven urban enterprises through streamlining administration and handing down power and by readjusting the profit distribution relationship between the state and the enterprises. However, because reforms in other areas were not coordinated, on the one hand, a series of decisionmaking powers which the state determined should be given

to enterprises still have not truly been given to them; on the other hand, in the expansion of enterprises' powers, the responsibilities, rights, and interests have not been well combined. This has resulted in enterprises' activities still not automatically according with the demands of the state's macroeconomic decisions and their being unable to react to market changes in a timely and precise way. Also, the reform of the internal systems of enterprises and the bringing into play of potential has been restricted. From this we can see that the determination for reform must be sustained. We cannot do things in a hurried way. We must proceed step by step. We must carry out experiments in a small area, and when we see that measures are correct, expand them to a larger area. In this way the reform policies and measures will accord with the demands of the development of practice and we can progress steadily in a down-to-earth way. Reforms may change the existing interests structure and distribution relationships, which will draw the attention of all sides and every household. This also determines that in the reforms we must proceed carefully, fully consider the interest relationships on all sides, make careful plans and overall arrangements, and put all our efforts into strengthening our foresight so that we can reduce or avoid mistakes. For example, reforming the irrational pricing system and price management system is an urgent issue in the economic structural reforms. However, this reform will be a centralized readjustment of the interest relationships on all sides and may lead to major changes in interest relationships on a wide scale and on many levels. Thus, the pace of reform cannot be too swift, as that might lead to an excessively swift growth in the overall level of prices, exceeding the capacity of the state, the enterprises, and the vast number of residents to bear them. This demands that we proceed from reality; seriously analyze the feasible conditions for price reform in terms of speed, measures, and steps; and correctly handle the complex internal relationships between the various aspects of price reform. On the precondition of not inducing major social shock waves, we should carry out reforms in a planned and step-by-step way.

Lenin once pointed out: "The reason Marxism has such an irresistible appeal to socialists in all countries lies in its combining the rigorously scientific with the revolutionary." Comrade Deng Xiaoping's guiding principle of "we must be brave and the pace must be steady" in the economic structural reforms provides us with a new example of the combination of the Marxist revolutionary spirit and scientific spirit. This has great methodological significance for us in gaining a correct understanding and in carrying out reform. "We must be brave" means that we must look down on difficulties and must proceed from the objective requirements of developing the social productive forces and perfecting and consolidating socialist production relations. We must also deeply recognize the inevitability and pressing nature of reform, firmly trust in the power of our party and our people to overcome the various difficulties in reform, and eliminate the hazards which may be brought. We must be undaunted by setbacks and must firmly forge ahead in carrying out reform. "The pace must be steady" means that in our tactics we must pay attention to difficulties and must analyze in a seek-truth-from-facts way the development process, specific conditions, and methods and measures for reform. We need to adopt a cautious attitude in regard to difficulties, contradictions, and problems which may occur, seriously research and formulate policy measures which

accord with reality, and actively and safely resolve problems. If we are not brave in firmly carrying out reform, we cannot even begin to talk about being steady in our pace. If we do not persevere with steady progress and only stress courage, there may occur complications and reverses and we may be forced to suspend the course of the reforms. Only if we have the two aspects and organically link them, and if we seriously analyze and handle the various problems in the reforms, will our reforms be able to smoothly develop and achieve success.

[By Li Maoguan [2621 5399 4619]]

11. "IF WE DO NOT CARRY OUT POLITICAL STRUCTURAL REFORMS, WE WILL NOT BE ABLE TO GUARANTEE THE RESULTS OF THE ECONOMIC STRUCTURAL REFORMS AND WE WILL BE UNABLE TO ENSURE THAT THE ECONOMIC STRUCTURAL REFORMS CONTINUE TO MAKE PROGRESS." (Deng Xiaoping: "Building Socialism With Chinese Characteristics," revised and enlarged edition, p 138)

Marxism holds that in social life, economics and politics are a unity of opposites. They are mutually reliant and mutually restricting. Economics is the base and politics is a centralized manifestation of economics. Economics determines politics and politics counterreacts against economics and under certain conditions may even play a determining role, as it may promote or obstruct economic development. By combining the basic Marxist principles in regard to the relationship between politics and economics with our nation's realities, we will deeply understand the great and far-reaching significance of the stress Comrade Deng Xiaoping places on carrying out political structural reform.

Both economics and politics have structural problems. Our country's original economic structure had as its basic characteristic the state being engaged in highly centralized direct management of the economic activities of the whole society. Our country's original political structure was formed in accordance with the demands of this highly centralized economic structure. It had a highly centralized power structure in which there was unified control over political, economic, and cultural activities. Its major defects were that party and government functions were not clearly determined, government and enterprise functions were not clearly distinguished, organs were overstaffed, there was low efficiency in work, and there was serious bureaucratism. This political structure with highly centralized state power does not accord with the demands of developing a socialist commodity economy. Now, each time the economic structural reforms take a step forward, they encounter repeated obstacles. This naturally involves the problem of how to coordinate the economic structural reforms, but a major reason for this is that corresponding reforms in various aspects of the political structure have not been carried out or lag behind the development of the economic structural reforms. Practice has proven that if the various defects in the existing political structure are not eliminated they will inevitably obstruct the deepening and development of the economic structural reforms. They may directly harm or cancel the achievements realized in the economic structural reforms.

First, when party and government functions are not clearly differentiated and the party replaces the government, it seriously affects the party's leadership of economic structural reform and the bringing into play of the roles of government and other functional departments. Economic structural reform is an extremely complex and deep-going structural change. It involves the readjustment of interest relationships in many areas and may give rise to various complex social problems. Only by stressing the party's leadership of economic structural reforms on the political, ideological, and organizational levels will we be able to maintain the socialist orientation of reform, appropriately handle the interest relationships on all sides, correctly resolve various social problems, and establish a new structure which accords with the demands of developing a socialist commodity economy. Since the 3d Plenary Session of the 11th CPC Central Committee, great efforts have been made to resolve the problem of there being no clear distinction between party and government functions and the party replacing the government. However, there has been no basic resolution. This structural problem has resulted in party organs becoming bogged down in all sorts of specific work, thus being unable to centralize their energies in studying principles and policies and how to handle the major problems in reform. This affects party building and lowers the leadership level of the party. This structural problem has obstructed the various state organs and various economic and social organs from freely carrying out their due functions and is not beneficial to having the various levels of government establish strong command systems so that the problems in economic structural reform and modernization can be solved in a timely and highly responsible way.

Second, the overcentralization of power and the overstaffed organs have been serious obstacles to the economic structural reforms and the development of a commodity economy. At present many administrative organs are seriously overstaffed, functions are not clearly set down, power is overcentralized at the top level, and the leadership organs exercise excessive and overly rigid control. Through a period of reform there have been some changes in the former situation whereby administrative organs directly managed the economy and exercised excessive and overly rigid control over enterprises. However, government and enterprise functions have not been completely separated, the problem of organs being large and overlapping has not been basically resolved, and, in many organs, because there is a large staff, jobs have to be found. Thus, many enterprises are subordinate to differing degrees to an administrative organ, some government departments still have control over the personnel, finances, and materials of subordinate enterprises, and some, after giving powers to enterprises, have again regained the powers by forming corporations. This is a major reason why the demand that enterprises "make their own decisions in regard to operations and be solely responsible for profits and losses" cannot be truly implemented in many enterprises and why it is difficult to enliven urban enterprises. Power is too centralized and leading organs manage what they should not manage, with the result that they cannot manage things or do not manage them well. They then require that more offices be established. This further exacerbates the problem of overstaffing and is a major cause of the current bureaucratism in some organs where work is done slowly, there are more hands than are needed, there is wrangling between the various sides, and no one takes responsibility. These things have become

major fetters for the deeper development of the economic structural reforms. This requires that we persist in handing down power, simplifying administration, and further resolving the problem of the relationship between the central authorities and local authorities, between the various levels of local organs, and between government and enterprises. Only thus will we be able to raise work effectiveness, eliminate bureaucratism, discover and resolve problems in a timely way, and guarantee the smooth implementation of the economic structural reforms.

Third, the existing cadre system has many imperfect aspects and links. This is a major problem obstructing the deeper development of economic structural reforms at present. Economic structural reforms require a large number of outstanding leading persons and various types of outstanding specialists. This demands that there be a scientific selection and management system for talented personnel. Through a period of reform we have initially resolved the problems in the former cadre system whereby the cadres had lifelong tenure in their positions, it did not matter whether their results were good or bad, rewards and penalties were not clearly set, and there was the simple application of common standard methods to manage different types of cadres in different areas, different departments, and under different ownership systems. However, in terms of cadres' employment, selection, rewards and penalties, assessment, training, mass supervision, and elimination, we still lack a strict scientific system. Further, irrational phenomena still exist to a serious degree in cadre selection, management, structure, and skills employment. There are many skilled persons at the lower levels, but they have not been fully discovered and employed. Meanwhile, some people who are mediocre both in terms of integrity and skills and who have not realized any good achievements enter the leading groups. Thus, building and perfecting a scientific cadre system so that outstanding young cadres who truly accord with the demands of the four modernizations can take up leading posts at all levels and the creation of conditions by which outstanding talented people in all areas can develop and be brought into play have become extremely important tasks in the political structural reforms. Only by resolving this problem well will we be able to guarantee smooth economic structural reforms.

Finally, the fact that democracy and the legal system are not complete is a major factor restricting the continued deepening of economic structural reforms. Economic structural reforms require the full development of socialist democracy; the motivation of the enthusiasm of the grass-roots level and of the vast numbers of workers, peasants, and intellectuals; the strengthening of supervision from the bottom upwards; and the democratization of management. They require a change from rule by men to rule by law and the guaranteeing in terms of regulations and of laws that people's democratic rights will not be violated. Thereby the people can really become masters and they will then throw themselves into reform and the four modernizations. This requires the formulation and perfection of a series of strict administrative laws and an individual responsibility system, and the clear stipulation in laws and regulations of the division of power between the various party and government organs and of the functions, jurisdiction, and responsibilities of the administrative organs at the various levels so as to eliminate the defects of the existing political system. The major economic

structural reform principles, policies, and measures of the party and the government need to be legislated. Through economic legislation we can then readjust an increasing number of economic relationships, maintain the order of the reforms, and consolidate and develop the achievements of the reforms. For many reasons, our country's democracy and legal system are still not sufficiently complete. It is necessary to create conditions whereby the masses can better participate in the decisionmaking in and management of political life and economic life. The building of an administrative legal system and an economic legal system is currently a weak link in our country's legal system construction. Much work needs to be done in this area. Many new problems will occur in reform. At present we have no laws to rely on and by which to handle these problems. When the people are suppressed or attacked while exercising their democratic rights, they lack legal protection in many respects. These problems also seriously affect the deeper carrying out of economic structural reforms. Further, the influence of evil feudal legacies which are innately related to a political system with a high degree of centralization of power also need to be further eliminated.

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FIRST LECTURE OF FORUM ON THE SOCIALIST COMMODITY ECONOMY: WHY IS IT NECESSARY FOR A SOCIALIST SOCIETY TO MAKE GREAT EFFORTS TO DEVELOP THE COMMODITY ECONOMY?

Beijing HONGQI [RED FLAG] in Chinese No 14, 16 Jul 87 pp 43-46

[Article by Zhang Zhuoyuan [1728 0587 0337]; first two paragraphs are HONGQI introduction; capitalized passages published in boldface]

[Text] Preface

The socialist economy is a planned commodity economy based on public ownership. China's economic structural reform is now being carried out with a view to developing the socialist commodity economy. Many localities are probing ways to develop the commodity economy according to their conditions. To the cadres, this is a new but important issue. With the aim of helping them study the theory of, and policies concerning, reform and opening, and to promote the in-depth development of economic structural reform, this column is published, beginning with this issue. There are more than 20 special topics in these lectures on theory and basic knowledge related to the socialist commodity economy. This series of articles is, and will be, written by competent specialists, scholars, and middle-aged and young theoretical workers. It is also planned to compile them into a book after publication.

Currently, the academic and theoretical circles do not share a common view on some theoretical issues concerning the socialist commodity economy. The lectures thus strive to give a relatively accurate and comprehensive explanation of the basic theoretical issues. Some controversial issues only serve to reflect the writers' ideas, and are only for readers' study and reference.

A socialist economy is a planned commodity economy, based on public ownership. A socialist society must greatly develop the commodity economy. This is an important guiding ideology, gradually becoming more popular following the 3d Plenary Session of the 11th CPC Central Committee. Over the years, China has experienced a tremendous growth in the commodity economy, based on the socialist commodity economy. It is both an important feature, symbolizing the magnificent results achieved by our socialist construction, and the fruitful achievements made by our implementation of reform, opening, and the principles of invigoration. Facts have shown that to develop the commodity



economy is the key to appropriately handling relations between construction and reform, as well as the point of integration between construction and in-depth reforms.

# 1. THE AIM OF REFORMING THE ECONOMIC STRUCTURE IS TO VIGOROUSLY DEVELOP THE COMMODITY ECONOMY.

The "Decision of the CPC Central Committee on Economic Structural Reform" points out: "A socialist planned economy must conscientiously depend on, and make use of, the law of value, and is a planned commodity economy, based on public ownership. Full development of the commodity economy is a requisite stage in the economic development of society, as well as the necessary condition for China's economic modernization." The basic feature, distinguishing a new economic system from an old, is whether it develops or limits commodity-currency relations. The old economic management system took the commodity economy as conflicting with the socialist planned economy, neglected the law of value, and rejected market mechanism. Such a mechanism made the social economic activities subject to the influence and support of a powerful administrative force, which was inefficient, brought poor economic results, and lacked vitality. Therefore, the inherent advantages of the socialist system were unable to function properly. As we limited the development of the commodity economy, did not respect the law of value, and were afraid of the market force, numerous enterprises and laborers inevitably lacked the inherent driving force of making constant progress and being innovative. In addition, they lacked the external competitive pressure of survival of the fittest. Consequently, the technological advancement was affected, which was unfavorable to enhancing labor productivity and improving business management. This is the major reason for the situation where China's economic results were poor and the people actually got little advantage over the years, despite its fast development. It is also the major reason for a situation where the economic and technological gaps between China and the developed capitalist countries were difficult to narrow, and even widened in some areas.

To reform the traditional economic structure and establish a new and vigorous socialist economic structure, we must switch our practice from that of limiting the commodity economy to that of developing the commodity economy, from that of despising the law of value to that of handling things according to the law of value, and from that of rejecting market mechanism to that of making full use of it. We must get rid of the viewpoint which regards the socialist planned economy as conflicting with the commodity economy. Instead, we should acknowledge that the socialist economy is a united structure, consisting of the planned economy and the commodity economy, the law of value is an inherent law of the socialist economy, and market mechanism is an ineluctable factor in coordinating the functions of the socialist economy.

Therefore, the basic direction of reform is to make the economic structure meet the requirements for developing the commodity economy, and to enhance the vitality of enterprises, so that they become the socialist commodity producers and operators, making their own decisions and solely responsible

for their own profit and loss. It is also to further develop the socialist commodity market, to gradually perfect the market system, and to carry out reforms of the price system and the pricing management structure; as well as to change state supervision over enterprise from the primary practice of direct, to that of indirect, control, and to build a new socialist macro-economic management system. All these reforms are linked to the development of a socialist commodity economy. To open up, while enlivening the domestic economy, may enable us to import advanced production technology, experiences and ways of developing the commodity economy; and may enable us to put China's commodities onto the international market. This promotes China's development of the commodity economy.

## 2. WHY IS REGARDING THE SOCIALIST ECONOMY AS CONFLICTING WITH THE COMMODITY ECONOMY WRONG?

Over a long period, the theory which regarded the socialist economy as conflicting with the commodity economy played a predominant role in our ideological theory. What is wrong with this viewpoint?

First, we thought in terms of absolutes when considering the socioeconomic causes for the existence of a commodity. When analyzing commodity production under the conditions of private ownership, both Marx and Engels said that commodities were, first, products of individuals. Therefore, we may come to the following conclusion: As socialism must eliminate private ownership, it must also eliminate the commodity production. But, we must not think in terms of absolutes when considering Marxist expositions. When analyzing commodity relations, Marx did not limit the scope to the economy of private ownership. For example, he said: "Commodity production, and thereby commodity circulation, may also develop among different communities, or among different structures within the same community." ("Economic Manuscript (1861-1863)," "Collected Works of Marx and Engels," Vol 47, p 37)

Over the years, the experience of various socialist countries has shown that it is inevitable that commodity relations exist in socialist society. Under socialist conditions, there are still various forms of public ownership, and manifold forms of ownership exist besides public ownership, which is the major form. They need to establish and develop their economic links through the form of commodity exchange. As there are still differences between individual labor and social labor within the economy owned by the whole people, and because labor is still people's major means of life, society must acknowledge that the capability of different laborers is a "privilege endowed by nature." Therefore, in terms of economic interests, there still exist differences and contradictions among laborers and among laborers' collectives (enterprises), though they are under the prerequisite of sharing the same fundamental interests. In other words, to a certain extent, there exist "the relations in which each of them regards their counterpart as the outsider." ("Das Kapital," Vol 1, p 105) The relationship had to be readjusted and handled according to the principle of exchanging at equal value, thereby persevering in the existence of commodity-currency relations. That is the reason why commodity relations exist within socialist society, particularly the publicly owned economy.

Second, we also had a one-sided understanding of the socialization of production and socialized large-scale production. When analyzing the historical development trend of the capitalist commodity economy, Marx and Engels repeatedly pointed out that, in the wake of development of the capitalist commodity economy, the degree of socialization of production would be heightened and would develop antagonistic contradictions with private ownership. The intensity of the contradictions would lead to replacement of private by public ownership. The heightened degree of socialization of production would make production become more concentrated and larger in scale. Therefore, people once held that, after the realization of public ownership, society's economic activities as a whole would be under the centralized command and operations of the state, the state would assume responsibility for profit and loss, and there would be no commodity-currency relations. However, practice has shown that things did not happen in this way. The advancement of modern technology and the process of heightening the degree of socialization of production not only brought about centralized and large-scale production, but also diversified and small-scale production. At the same time, even though we have realized public ownership, production and operations of publicly owned socialist production are still to be implemented by various enterprises. In addition, the state or nation must acknowledge their relative independence and their own economic benefits. Therefore, enterprises must adopt the system of economic accounting, independent operations, and assuming sole responsibility for their own profit and loss. Thus, both enterprises and laborers are concerned about production and operational results, as they are interested in material benefits. This shows that, in the wake of the development of modern science and technology and the increasing socialization of production, the societal division of labor, which is the universal condition for commodity production, will not be eliminated. Instead, it will be further developed. The in-depth development of societal division of labor, as well as the existence of economic interests among laborers (and among enterprises), make it impossible to eliminate commodity-currency relations using socialism.

Third, to a certain degree, we once had an extremely simplified understanding of socialist distribution according to work. In the past, we held that the practice of distribution according to work might be implemented through the issuance of labor vouchers to laborers, who would later exchange them for materials from the supply institutions of society. For instance, there were coupons for getting rice, flour, oils, sugar, clothes, shoes and so on, and we took no notice of the commodity-currency method. However, in socialist society, people's demands vary greatly, and their contents always change. People spend their money at different levels, as their incomes vary. Thus, their consumption structure is also different. In the wake of the rapid development of modern production technology, the variety of products is on the increase. One after another, many products, once regarded as luxurious, have become daily necessities. Meanwhile, many better and new products have also become the people's means of enjoyment and development. Now, of industrial products for daily use alone, there are tens of thousands, even hundreds of thousands, of items, so that the possibility, as well as the practicability, of distribution in kind become minimal. For this reason, the practice of distributing consumer goods, through the issuance of labor vouchers, is

impractical. The socialist practice of distribution according to work must be realized through commodity circulation and exchange of equal values. Hence, we must develop the commodity economy in order to realize the practice of distribution according to work, and to improve the people's livelihood.

### 3. TO PROMOTE SOCIALIST MODERNIZATION, WE MUST GREATLY DEVELOP THE COMMODITY ECONOMY.

The basic task in a socialist society is to develop the productive forces. In order to develop these, we must not eliminate commodity-currency relations. Instead, we must also greatly develop the commodity economy. Only through the development of the commodity economy can we speed up the pace of socialist modernization.

First, to greatly develop the commodity economy may effectively boost the vitality of the socialist economy, and mobilize the initiative of both enterprises and laborers. The major setback of the traditional economic system was that it made the socialist economy remain in a closed and rigid state, and paid no attention to the economic results of enterprises, which were producers of commodities. Therefore, neither laborers nor enterprises were concerned about the economic results of their units. Furthermore, there was no pressure of market competition. The economy of society thus lacked vitality. To develop the commodity economy, we must acknowledge that all socialist commodity producers and operators have their own independent economic interests, which must be sought and realized through market competition, thereby encouraging every enterprise and laborer to break away from the outdated and conventional practices, constantly developing, making progress and creating a real and lively situation in which everyone competes with one another for better achievement.

Second, the development of commodity economy can help us break away from the constraints of natural economy and heighten our level of laboring and production socialization. As the development speed of the commodity economy was so slow that China's development of industrial products was sluggish, the marketability of agricultural products was poor, and most rural areas were still in the natural economic form. Therefore, though the peasants initially solved problems concerning clothing and food, it was very difficult for them to get rich. The potential of China's rural areas is very great. Only when we greatly develop the commodity economy, master the skill of using the law of value and depend on the market for organizing production and circulation, can we tap the potential of agricultural production, and make full use of the rich natural and human resources, so that the rural areas will gradually extricate themselves from the backward situation of self-reliance and semi-self-reliance. This will also help agriculture achieve modernization, and help more and more peasants get rich. As we practiced the responsibility system with payment linked to output and we focused on the development of commodity economy following the 3d Plenary Session of the 11th CPC Central Committee, the marketability of agricultural products made by China's rural areas was increased to 68.1 percent in 1986. More people in the rural areas engaged in industrial and sideline production. Town and

township enterprises experienced a comprehensive development. Specialized households and villages promoted the development of specialization and societal division of labor. This has therefore provided conditions for invigorating the economy and improving the people's livelihood.

Third, the development of commodity economy effectively promotes the advancement of technology and the improvement of business and management skills. The function of the commodity economy is supported by the law of value, which requires us to evaluate and assess the results of various social economic activities with a unified social standard--value here refers to the necessary labor time of society (under the present normal conditions of societal production, it means the labor time needed to create a certain kind of utility value under the circumstances where labor skill and intensity are equal in society). This encourages socialist production and business units to strive to economize on consumption and improve their labor productivity, to make their own labor consumption below the necessary labor consumption of society. Thus, if the products are sold according to the necessary labor time of society, the producers will get relatively better economic results and earn more profits. In order to achieve this aim, we should, first, adopt new technology and second, strengthen our business management. Experiences of the world's economic development in various countries have shown that the pace of technological advancement has quickened, and the level of business management skills is high in places where the commodity economy is developed. On the other hand, the technological development becomes stagnant and the management skills are backward in places where the constraints of natural economy are powerful. At present, we need to quicken the technological advancement, improve our management skills, strive for narrowing the gap between China and the world's advanced countries, and constantly improve the economic results of society by greatly developing the commodity economy.

Fourth, to greatly develop the commodity economy may make full and rational use of the resources of society, closely link the production of society to its consumption, and establish a rational structure of production and consumption. Commodities are products for sales and to be used by other people. Commodity production is a production for exchange. Therefore, when a commodity producer decides on what to produce and when to produce, he must take into full consideration the needs of society, market, and consumers, or his commodities will become unmarketable and the labor consumed in the course of commodity production is not recognized by society. As we practiced unitary planning and readjustment in the past, we often brought about overstocking of some products while facing serious shortage of others. The development of commodity economy can help overcome this shortcoming, and it is favorable to making supply, production, and sales in the socialist economy closely integrate with each other under the guidance of macro planning, so that the production can satisfy the needs of society and market in a better way. This promotes the gradual rationalization of societal structure of production and consumption, so that we can produce more and better use value, which are needed by society, with minimum labor consumption and minimum capital.

Fifth, to greatly develop the commodity economy may also help people develop the concepts of economic results, value, market, and competition. Under the traditional economic system, people engaged in production and ran business according to instructions and orders. They were profoundly influenced by the thinking of natural economy and could only realize the interests of their own units, regions, and departments. They always practiced "large-scale and complete and small-scale and complete." In the economic activities, there were no funds, efficiency, or comparison between individual consumption and the necessary consumption of society; and no attention was paid to the economic results. Our practice of developing the commodity economy helps people learn about the thinking of production for the market, constantly heighten their thinking about competition, and help them focus on economic accounting and stress on economic results. Therefore, they will develop a vigorous spirit of forging ahead, and they will be encouraged to make progress in the course of the economic activities of society.

To greatly develop the commodity economy is very important at our present stage of socialist modernization. As China is still at the initial stage of socialism, its economy is relatively backward and its commodity economy is extremely underdeveloped. The marketability of its agricultural commodities is rather low. Its per capita gross national product per annum is just \$300, which will only reach \$800 by the turn of this century, reaching the level of "comparatively well-off," despite our great efforts. Such circumstances require us to pay special attention to the development of commodity economy. Even though we have greatly developed our commodity economy in the near future, such as in the mid-21st century when our per capita gross national product per annum is about \$4,000, can we pay less attention to the development of commodity economy? No, we cannot. We still have to greatly develop the commodity economy by then.

The socialist commodity economy is a planned commodity economy based on the public ownership. However, to a certain degree, the development of commodity economy under the socialist system is also a voluntary one. This is because the development of commodity economy is easily affected by the short-term supply-demand relations of the market, whose fluctuation is sometimes inconsistent with the requirements for a long-term, steady, and coordinated development of society's economy. At times, due to price distortion, irrational tax rates, irregular market activities, and confused circulation, the economic interests of commodity producers and operators are inconsistent with those of society, with the result that there are some economic activities concerning commodities which do not conform to the requirements of improving the economic results of society as a whole. Therefore, in order to make the socialist planned commodity economy develop in a healthy manner, we need the supervision of macro planning by the state. This is mainly manifested in the following areas: First, through planning and arrangements, we must ensure that the ratios of macroeconomics are rational; that the balances in and among the areas of finance, credit, materials, and foreign exchange are achieved; that the gross supply and gross demand of society are balanced; and that the overall level of prices is basically stable. Thus, the national economy can maintain a coordinated and steady development. Second, through the formulation of economic policies, the state uses the economic levers and

and administrative means to guide the activities of commodity economy to develop in the direction of conforming to the economic development of society, so that both the microeconomic results and macroeconomic results are linked together in a flexible way. Furthermore, the development of commodity economy will inevitably be the survival of the fittest and magnify the difference of economic results. Therefore, a socialist country must make appropriate readjustment by means of taxation, in order to prevent polarization from happening, and to ensure that the income of each laborer is basically linked to his labor contributions and that joint prosperity is achieved.

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'BEHIND' BRAVING SEVERE COLD

Beijing HONGQI [RED FLAG] in Chinese No 14, 16 Jul 87 p 46

[Article by A Kang [7093 1660]--excerpted from XUEXI YU YANJIU, No 7, 1987]

[Text] Some time ago the papers carried a commentary stating that one of China's first generation machine building specialists, an elderly engineer of 86, criticized the bureaucratism of a relevant government department and stated: "Over 30 years have passed since liberation. We have been able to send missiles into space but unable to solve the problem of water dripping from the flush toilet!" Subsequently, a reply was made on the news of the broadcasting station: "A bureau chief of the government's department in charge brought along sample valves of a newly designed flush toilet and the relevant personnel and went personally to the home of the aged engineer to seek his views." This is certainly a very good thing. However, the emphasis in the report on the fact that the "bureau chief braved severe cold to visit the aged engineer" embodied an overtone that was not pleasant. The more one thinks about it, the worse he feels.

Behind the words "braving severe cold" we are inclined to hear a dilapidated voice: an "official" normally sits in the "yamen" to look after affairs; breaking a precedent to go out and disregarding his high position to humbly visit the residence of an ordinary citizen to seek views is an extraordinary matter! As a result, "braving severe cold" was wildly acclaimed.

For many years, we have been accustomed to treating normal things as abnormal things, treating the "public servant" as the master, and loudly acclaiming one thing or another. When something is obviously done that normally should indeed be done, it is captioned with such phrases as "despite the heavy burden of work," "personally attending to the job," and so forth. It seems that the normal way is to do the work when there is nothing else to do and not having to do it personally. Take the current incident for example: As the bureau chief in charge, before the criticism that "while missiles have been projected into space, the problem of dripping water from the flush toilet is not yet solved," he should feel a little guilty and should resolve to do something new and spectacular. Improvement is necessary. It is his duty and may be appropriately propagated. It is entirely unnecessary to go into much propaganda work and to eulogize his virtues and achievements. If saying something extreme like "braving the cold" must be emphasized to make



up for shortcomings, then, since over the past 30 years much water has dripped away, who shall be held responsible for the losses? In this connection, what should be greatly written up and highly praised was the elderly engineer himself! It happened that upon the arrival of the bureau chief, the elderly engineer had prepared a large number of materials and articles and, moreover, at his advanced age, had personally designed and produced a sample product.

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## THE POSITION OF THE MASSES

Beijing HONGQI [RED FLAG] in Chinese No 14, 16 Jul 87 p 47

[Article by Wu Hao [0702 8504]]

[Text] I have been to many temples and visited many old monasteries and pagodas. Be it a monks' abbey or a Buddhist nunnery, each and every Buddha and fairy has his or her own position: The supreme deity sits in front and the goddess of mercy is in the rear; Maitreya welcomes guests with a beaming face, Wei Duo, holding his big stick, is the guardsman, and each attends to his post and is well at ease. At times, even the demons and evil spirits whom Tang Seng met on his journey afar to bring back the Buddhist classics are portrayed.

However, there are exceptions. In Quanzhou city of Fujian Province in front of the Kai Yuan Monastery there are two pagodas. One of them is known as the Zhengguo Pagoda and the other Renshou Pagoda. Below the stone pillar at each corner of the pagoda base is a weight-carrying dwarf, only 30 centimeters high. They appear to use varying kinds of postures to bear the weight of some 37 million kilograms of the stone pagoda above them. Some use their hands and arms, some use their shoulders, some bite their lower lips, some look fierce, some appear resentful, some make wry faces as if hardly able to bear the heavy burden. They also show some enjoyment and some sort of martyrdom and determination. Though small in figure and displaying different caricatures, the whole picture gives the impression that if one of them should ever give up the whole 50-meter high stone structure would topple. They are the real responsibility bearers. Actually it is the position of the masses and the position of the people.

Before the birth of Marxism, nobody could theoretically correctly solve the problem of who is the creator of history and who is society's true master. Throughout the centuries not a single ruler could correctly place the position of the masses. In the monasteries, there are Buddhas and no common people. This is like in old narratives and old dramas where there are generals and commanders but no mention of the common soldiers. This is really a reflection of idealism's conception of history.

The CPC has taken the close liaison with the masses as its distinguishing mark from other political parties. "Wholeheartedly serving the people; never

departing from the populace for a moment," "the masses are the real heroes," "coming from the masses and going to the masses," "believe in the masses, rely on them, and go all out to mobilize the masses," and so on, these ideas and their manifestation in real life fully affirm the role of the masses in their capacity as the weight-bearers and supporters of all of society and treat the masses as the real masters. The position of the masses has suffered a great change both in conception and in reality.

Naturally, old concepts cannot be eliminated all at once. Probably because of this the problem of the position of the masses has still not been settled well among some comrades. Among certain of our comrades, liaison with the masses and departure from the masses frequently coexist. Reliance on the masses and disbelief in the masses seem to grow together, while serving the masses and damaging the masses interpolate each other. To some people, the masses are just a playing card for their use. They admit that they are the "public servant" of the masses, but still wish the masses to come under their complete control. When fighting with the demons, Sun Wukong would pluck hairs from his body and by magic the hairs would turn into lively small monkeys to help him in the fight. At the end of the fight he would shake his body a little and the monkeys would turn again into hairs of his body. At the time of need, some people among us would like to have as many "small monkeys" as possible, but when the job is accomplished they would forget all about them. "Monkey hair" is plucked from Sun Wukong's body and the relationship is a close one. In reality we are plucked from the body of the masses. However, the relationship is not that intimate. What is the reason? This truly deserves deep thought.

In what position should we place the masses? At a meeting the mayor of a certain city said: In our revolutionary beliefs and concepts, the motive forces to move forward, the source of wisdom and the guarantees of victories, the firmest foundation of them wholly lies in the masses. The masses are most lovable; they have many real difficulties, but they demand little of us; they are the most respectable, have limitless power, and society's wealth depends on them for creation. The masses should be feared the most as they can topple any person who incurs their wrath. These words were well said. With such an understanding, it is not difficult to place the position of the masses.

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EXCAVATING BEAUTY FROM REALITIES--REVIEWING THE FILM 'ZHENZHEN HAIRDRESSERS'

Beijing HONGQI [RED FLAG] in Chinese No 14, 16 Jul 87 p 48

[Article by Zhang Jiong [1728 3518]]

[Text] Life is beautiful, but art can be manifested to be more beautiful than life. The film "Zhenzhen Hairdressers" has once again demonstrated this truth.

The new film "Zhenzhen Hairdressers" produced by the Youths' Cinema Films Production plant of the Beijing Cinema Academy is a narrative film rich in the moving force of art and social educational significance. Its caricatures, which are full of the interesting aspects of life, aptly depict city customs and the vulgarities of life and fully and truly reflect the life of urban individual households or units with which people at large are still not quite familiar. The producer and actors have all worked hard to display the conflicts facing a newly established hair-dressing salon in a small alleyway in Beijing, the conflicts in interest, and the troubles in human relations among the various individual households or units. They have carved out a popular picture of this generation of young households in a lively way. The film depicts their conflicts and competition, their ideals and desires, their pains and joys, and thereby make the audience deeply feel the ticklings of the historical pulse of the socialist reform. It enables the people's heart and soul to rise in splendor in this beautiful world.

In the film the description of the main character, Zhenzhen, proprietress of the salon, is especially successful. Following her graduation from senior high school, Zhenzhen failed twice by a few marks in the examinations to gain access to higher studies. She would not like to stay at home, as advised by her elder sister, and live on the interest earnings from bank deposits. She rather preferred arduously starting the "Zhenzhen Hairdressers" to beautify people's living and to realize her own life's value. To start the salon in good shape, she invited from Guangzhou a small fellow by the name of Ah Ming to serve as the principal barber. This caused proprietor Dayong of a nearby salon to become jealous of her and youths of other individual households to widely speculate. Some even went so far as to spread rumors against her. At that time, she herself was in a crisis in her love life. She could not pardon her boyfriend Cai Xiang's mistakes but could not forsake him. She began to harbor deep sentiments toward Ah Ming but suddenly discovered to her

dismay that Ah Ming already had a fiancée. But after all she had her self-respect and was a sturdy, resolute, bold, kindly and upright maiden. Against Dayong she not only did not seek any revenge but also, at a time when Dayong's salon was on the verge of closure, allowed Dayong's pupil Miaomiao to come and learn from Ah Ming and subsequently to return to Dayong's salon to revamp its business. She would rather let her own salon suffer losses and resolutely allowed Ah Ming to return to Guangzhou with his fiancée to work there. She was also prepared to pardon Cai Xiang and was willing to resume the love affair, but it was already too late as Cai had already married another girl. This disappointment in her love life caused her great pain. The film also describes her resolute refusal to perform strange and peculiar styles for her clients. It also gives the moving details of her hiring a car to transport a client who happened to have some urgent business to attend to. All these descriptions richly demonstrate her kindly character and exalted traits. Finally, Ah Ming, showing his gratitude to her, sent her a golden chain as a present. The final scene: Miaomiao departing, as alone in the house Zhenzhen wears the golden chain, frequently touching it in great solitude. An ending scene like this invites people's interest. The audience feels sympathetic toward her for having gained friendship and riches but failed in love. It can be imagined, however, that such a kindly maiden in her road of life can readily find a likable life-partner. This is because the viewers of the film have come to know her, and felt her intimacy and honesty and cleanliness, like a clear lotus flower just coming out from the soil and loved by everybody.

The film's whole makeup is superior, pleasing, and rich in poetic sentiments. The hair-dressing salon painted in many colors, the attractive night scenes along the alleyways, the rhymes of Ah Ming's saxophone renditions, the laughter and gay talk of collegians visiting the hairdressers, and the busy scenes and people's different expressions of sentiments in the railway station and airport when seeing Ah Ming off to Guangzhou all combine to form a series of well-liked water-color pictures that lets the audience enjoy the blessings of art in a poetic atmosphere.

The existence and development of individual economy is a beneficial supplement to our country's socialist economy. In recent years many urban youths have entered this arena. Their lives and sentiments deserve people's understanding and should be duly reflected and manifested in literature and art. There is no need to deny that the cultural and ideological lives of the individual households are rather complex and individual economy itself developed in the course of competition frequently and easily breeds the growth of selfishness, self-interest and the notions of individualism. Hence, in the construction of the socialist spiritual civilization, we must not be slow in augmenting the ideological education of the millions of urban individual households and must give the matter prolonged concern. The general social and educational significance of "Zhenzhen Hairdressers" lies herein. It is known that the composers of the film visited 50 to 60 hairdressers to study and to examine life there as well as to collect and refine their material. They also emphasize manifesting the good ideas and behaviors of the individual youths. This is surely a correct road of art. I offer my warm greetings to the artistic efforts of the composers, director, actors, and cameramen.

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## REVIEWING 'LITERARY QUOTATIONS IN WORKS OF MARX AND ENGELS'

Beijing HONGQI [RED FLAG] in Chinese No 14, 16 Jul 87 inside back cover

[Book review by Shi Fan [0670 3879]]

[Text] In their writings, Marx and Engels frequently used literary quotations in order to be clear, lively, and forceful. Close familiarity with the contents of these quotations will deepen the understanding of the works of Marx and Engels. In order to meet the readers' needs, the Jilin People's Publishing House recently published the book "Literary Quotations in Works of Marx and Engels" (by Meng Xianqiang). The book contains some 700 quotations from Volumes 1 to 50 of the "Collected Works of Marx and Engels." The easy-to-understand explanations give the origin and development of the quotations and help readers to grasp the profound ideological contents of the works of Marx and Engels.

Combining knowledge and ideology is the noticeable and special feature of the book "Quotations." The items selected and compiled in "Quotations" are from over 130 articles and writings of over 50 authors in foreign literary history from ancient times to the middle of the 19th century, in addition to over 10 collective creative works of ancient and medieval times. The contents of each item are in two parts: One part consists of a complete text of the original passage quoted; the other part is a full explanation of the quotation. The explanatory note closely follows the original text of the works of Marx and Engels and manifests the basic objective of serving and helping the study of the works. Some of the quotations are rather profound, and the author's explanation of the meaning and significance of the quoted passages helps in understanding the original text. The items listed in "Quotations" indicate that Marx and Engels quoted most from the world's famous works, such as the Bible, Homer's "Poems," "One Thousand and One Nights," Dante's "Divine Comedy," Shakespeare's plays, Cervantes' "Don Quixote," Goethe's "Faust," Heine's poems and songs, Dickens' short stories, and so forth. Among them are included a number of noted and typical characters in history of foreign literature, personages such as Prometheus, Samson, Hamlet, Don Quixote, Faust, and so forth. In addition, there are certain quotations which already have obtained set names such as "Midas' ears" characterizing stupidity, "Judas' kiss" indicating rebellion and disloyalty, "Aladdin's magic lamp" indicating magical changes, and so on. Truly this is a dazzling array of multicolored exhibits, a feast for the eyes.

Another special feature of "Quotations" is that it combines a systematic and tool-like nature. Each and every one of its items is arranged according to the chronological order of foreign literary history and in the index are notes on the time period and country of origin. This fully illustrates the profound literary achievements of Marx and Engels. As for the readers, this arrangement makes it possible to understand the part by understanding the whole, to make reciprocal references, and to more correctly understand the special content of each and every literary quotation. As a tool book for the study of the works of Marx and Engels, it not only gives the volume and page number of the "Collected Works of Marx and Engels" in which the quotation is found but also carries a lengthy index at the end of the book listing the quotations in Volumes 1 to 50, and according to the order of the volumes, of the "Collected Works of Marx and Engels." The index conspicuously demonstrates the tool-like nature of the volume and facilitates the reader's references.

The length of each of the author's explanatory notes in "Quotations" is suited to each case. Short and concise explanations are made but in individual cases the necessary supplements are inserted and, in general, crucial points are provided where Marx and Engels' words need to be clarified. The translated terms in "Quotations" follow those in the "Collected Works of Marx and Engels." Furthermore, in consideration of other translated articles, appended to some of the items are some of the translated terms different from those found in the original texts of the works of Marx and Engels. This is very convenient for the reader in his studies.

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